

SECTORAL

UPDATES

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SBI's \$1 billion ESG loan completed: Largest ever social syndicated loan by an Asia Pacific commercial bank

Financial Express, 28th February 2023

The State Bank of India (SBI) has raised an ESG loan of \$1 billion to aid the social sector funding. The loan consists of a greenshoe for \$500 million from global banks. The loan is significant for SBI since it is the largest ESG loan by a commercial bank in Asia Pacific and the second largest loan globally linked to the social aspect. The funds from the loan will be further lent to smaller institutions like microfinancing institutions and self-help groups for social upliftment. The issuance was facilitated through MLABs, MUFG bank, Taipei Fubon Commercial Bank Co. Ltd. The loan ensured a full subscription including the US \$ 500 million greenshoe option and contribution from banks in Taiwan, Japan, China and the Middle East.

A loan with a high value that focuses on the social aspect of ESG in a developing country like India highlights that the sector is ripe for more such sustainable finance mechanisms with a substantial increase in market receptiveness.

<https://www.financialexpress.com/industry/banking-finance/sbis-1-billion-esg-loan-completed-largest-ever-social-syndicated-loan-by-an-asia-pacific-commercial-bank/2995202/>

MSCI index changes force DWS to pull ESG ETF

27th February 2023, Funds Europe

Index provider MSCI has made changes to its indexes, which has forced DWS, a German asset manager, to close one of its ESG-focused ETFs. The ETF, which tracked an MSCI index, was invested in companies that did not meet MSCI's new ESG criteria. As a result, DWS decided to shut down the ETF in order to maintain its commitment to ESG investing. The situation highlights the challenges that asset managers face in keeping their ESG products aligned with evolving ESG standards and index methodologies. The fund has a one year return on 32.67% and its four top holdings include Shell, TotalEnergies, BP and Equinor.

With new regulations and changes in the mandates for a financial instruments, it is noticeable that it creates challenges for the firms and the other parties involved to manage the changes but it also highlights the need of regular updates in the landscape of sustainable financial instruments.

<https://www.funds-europe.com/news/msci-index-changes-force-dws-to-pull-esg-etf>



France says EU rules on ESG funds need tightening to cut greenwashing

Reuters, 14th February 2023

France is calling for tighter EU rules on ESG funds to reduce the risk of greenwashing. The French Finance Minister, Bruno Le Maire, has urged the European Commission to revise its rules on ESG funds, including stricter definitions of what qualifies as a sustainable investment, more transparent reporting requirements, and greater oversight by regulators. The demand for ESG funds has grown rapidly in recent years, but concerns have been raised about the lack of consistency and clarity in ESG criteria, as well as the risk of funds being marketed as green despite investing in companies with poor environmental records. The proposed changes are intended to address these issues and ensure that ESG investments are genuinely sustainable and contribute to the EU's climate goals.

The eminent threat of greenwashing due to unclear rules is a growing issue with the rise of 'green' instruments. With demands for stricter regulations it underlines the inclination towards a more systemised and outlined market.

<https://www.reuters.com/business/sustainable-business/france-says-eu-rules-esg-funds-need-tightening-cut-greenwashing-2023-02-13/>

G20's sustainable finance group to work on capacity building in segment: Official

Economic Times, 4th February 2023

Under India's G20 presidency, the Sustainable Finance Working Group (SFWG) noted that sustainable finance is a niche sector and is a learning process. The group decided to focus on building capacity by aiming to recognize the requirements to fill the existing gaps and identify the existing efforts. The process would aid in generating recommendations and in depth understanding of the specific areas along with the knowledge of how organisations can contribute. The first SFWG meet prioritised on building the capacity in the sustainable development arena and that a skilled workforce is an integral asset. The scarcity of knowledge and lack of professionals in the workforce among countries. It was also stated that the problem is not only present in developing countries but is evident on a global scale. The process suggested by the committee included identifying the areas by understanding the demands to eventually cope with the supply.

With the increasing significance of understanding and enabling sustainable finance, training and capacity building is an integral and fundamental step to set forth on more inclusion and better execution.

<https://economictimes.indiatimes.com/news/india/g20s-sustainable-finance-group-to-work-on-capacity-building-in-segment-official/articleshow/97595422.cms>



SUSTAINABLE FINANCE

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UAE records 32% growth in green & sustainable finance, reports Arthur D.

Economic Times, 28th February 2023

Middle East and North Africa (MENA) has seen an increasing adoption of ESG by financial institutions. The recent report by Arthur D. Little noted a massive shift in the green and sustainable finance at \$ 24.55 billion in the MENA region in 2021 from the \$ 3.8 billion in 2020 which showcased a year-on-year growth at 532%. In the year 2022, UAE recorded a 32% YoY growth has been observed in the green and sustainable finance issuing. The UAE continues to build on the momentum of ESG in the MENA region with banks like First Abu Dhabi Bank gathering \$1.23 billion in credit facility linked to company's ESG goals. Further, the report highlighted that ESG is becoming a regular adoption which is aiding in building on products and services in the niche being available.

With UAE and the MENA region hosting multiple opportunities to implement and propagate the use of green and sustainable finance, the growth signifies a movement in the right direction to a more inclusive financial industry.

<https://hrme.economictimes.indiatimes.com/news/industry/uae-records-32-growth-in-green-sustainable-finance-reports-arthur-d-little/98291520>

Reserve Bank announces guidelines on climate risk, sustainable finance

Business Standard, 8th February 2023

The Reserve Bank of India (RBI) issued guidelines to regulated entities in accordance with the analysis of feedback received on climate risk and sustainable discussion paper released in July 2022. The guidelines encompass the framework for acceptance of green deposits, guidance on climate scenario analysis and stress testing, and frameworks for disclosure on climate-related financial risks. The RBI recognises the need for regulations to avoid financial instability since the climate change can evidently become climate-related financial risks for regulated entities. RBI plans to roll out the guidelines in a phased manner and consolidate all the communications on its website on a dedicated page for all climate risk and sustainable finance related updates.

With an inclusion of climate scenario analysis and stress testing in developing countries like India, it indicates the growing inclusion of sustainable finance measures in the global economy.

https://www.business-standard.com/article/finance/reserve-bank-announces-guidelines-on-climate-risk-sustainable-finance-123020801776_1.html



Sustainable finance: Provisional agreement reached on European green bonds

European Council, 28th February 2023

The EU reached a provisional agreement for the creation of European green bonds (EuGB). The regulations cover the mandatory requirements for issuers of bond and that all the proceeds of EuGBs be compulsorily invested in activities that are in alignment with the EU taxonomy with a condition that the sections concerned are already covered by it. For sectors uncovered by it and certain activities, there will be a flexibility pocket of 15% to ensure that the European green bond standard is useable since the conception. It also supplies voluntary disclosure requirements for sustainability linked bonds and other environmentally sustainable bonds in the EU to prevent greenwashing. The agreement includes the establishment of a supervisory framework and registration system of European green bonds for external reviewers.

With the green bond market receiving heavy interest globally, regulations that mandate alignment with the necessary norms and ascertain green activities is an indicative measure to make the market more streamline allowing better flow of funds.

<https://www.consilium.europa.eu/en/press/press-releases/2023/02/28/sustainable-finance-provisional-agreement-reached-on-european-green-bonds/>



Tamil Nadu at high risk of infrastructure vulnerabilities due to climate change, finds study

The Hindu, 27th February 2023

Tamil Nadu, a state in southern India, is at high risk of infrastructure vulnerabilities due to climate change, according to a study by the Cross Dependency Institute (XDI). The study, which assessed the climate risks faced by infrastructure assets such as roads, railways, airports, and ports, found that Tamil Nadu is vulnerable to sea-level rise, extreme heat, and intense rainfall, which could lead to flooding, landslides, and other hazards. These risks could have significant economic and social impacts, as Tamil Nadu is an important hub for trade, transportation, and tourism. Requirement for urgent action to address these risks, including the adoption of climate-resilient infrastructure design and construction practices, improved monitoring and early warning systems, and the integration of climate risk assessment into infrastructure planning and decision-making processes.

Tamil Nadu being an important trade route and facing infrastructure vulnerabilities calls to action on being more aware of the climate risks since it can lead to direct impact to the country's exports and imports.

<https://www.thehindu.com/news/national/tamil-nadu/tamil-nadu-at-high-risk-of-infrastructure-vulnerabilities-due-to-climate-change-finds-study/article66560367.ece>



International trade and world economies exposed to multi-billion-dollar climate risk to ports - Oxford study

Oxford university, 12th January 2023

A study by the University of Oxford shows that international trade and the world economy are exposed to multi-billion dollar climate risks. The study analyzed the potential losses to global trade from extreme weather events, such as hurricanes, droughts, and heat waves.

The findings reveal that global trade could be reduced by as much as 25% in the coming decades, with some regions, such as Southeast Asia and sub-Saharan Africa, being hit particularly hard. The study also indicates that developed countries, such as the United States and Europe, will not be immune to these losses and could face significant disruptions to their supply chains. The study scopes out facts that the governments and the private sector could work together to reduce the exposure of international trade to climate risks and to adapt to the impacts of a changing climate.

<https://www.ox.ac.uk/news/2023-01-12-international-trade-and-world-economies-exposed-multi-billion-dollar-climate-risk>



Extreme weather is impacting real estate portfolios

ESG Clarity, 22nd February 2023

As the frequency and intensity of extreme weather events increase, the risk of damage to properties also rises, leading to potential financial losses for property investors. There is a need for property investors to consider climate-related risks and opportunities in their investment decisions, including the vulnerability of properties to extreme weather events, the potential for adaptation and resilience measures, and the demand for low-carbon and sustainable buildings. Investors can play a key role in promoting sustainable practices and reducing carbon emissions in the real estate sector, such as through green building certifications, energy efficiency improvements, and renewable energy investments. As per a survey, climate related impact has impacted 46% of real estate investors.

Real estate investments are considered to be the safest long term investments but with increasing climate risks, the impact on real estate portfolios is a call for integrating climate risk analysis in a portfolio for a better management.

<https://esgclarity.com/property-extreme-weather/>



World risks descending into a climate 'doom loop', warn thinktanks

The Guardian, 16th February 2023

There are warnings from think tanks that the world risks are descending into a "climate doom loop" of worsening climate change impacts and inadequate policy responses. The article notes that despite growing awareness and action on climate change, progress has been slow and insufficient to meet the scale of the challenge. There is a need for urgent and ambitious action to reduce greenhouse gas emissions, adapt to the impacts of climate change, and address the social and economic inequalities that exacerbate climate risks. The think tanks also call for a radical transformation of the global economy, including the adoption of circular and regenerative systems, sustainable land use practices, and green investments. The article notes that the "climate doom loop" could have profound consequences for human health, wellbeing, and security, as well as for the stability of ecosystems and the global economy.

While there is an awareness and knowledge about climate risks and change globally, without an action on the awareness the spiral in increasing GHG, CO2 emissions, and other risks will increase. Therefore, the need for an action based approach for an overall better economy is a must.

<https://www.theguardian.com/environment/2023/feb/16/world-risks-descending-into-a-climate-doom-loop-warn-thinktanks>

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