Confederation of Indian Industry

INVEST INDIA

WORLD ECONOMIC FORUM

Sustainable Investment in India: Towards a Second-Generation Ease-of-Doing-Business Reform Agenda

COMMUNITY PAPER

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In Collaboration with
Maeflower Consulting

Cover: Getty Images

Contents

1 Executive summary

India can increase the *quantity* and *quality* of investment flows through sustainable investment policies and measures at the national and state levels.

The World Economic Forum launched an initiative on sustainable investment in 2016, aiming to understand how policies and specific measures can increase both investment flows and their development impact – or in other words, both the *quantity* and *quality* of investment.

At the Annual Meeting in Davos in January 2020, Invest India announced its plans to work with the World Economic Forum on a pilot in India. Invest India and the Forum are thus collaborating on identifying and potentially implementing key sustainable investment measures, together with the Confederation of Indian Industry (CII); Maeflower Consulting, an Indian firm specialized in investment policy; and the Consumer Unity and Trust Society (CUTS), an Indian non-governmental organization.

The project has three distinctive features. First, given India's federal structure, it focuses on three states (Assam, Madhya Pradesh and Telangana) and explores the role of subnational investment authorities in addition to national authorities in driving sustainable investment. Second, given the growing importance of Indian firms investing outside of India as a channel for India's development, the project also seeks to identify the most important measures to support outward foreign direct investment (OFDI). Third, while the project focuses horizontally across all sectors, it also carries out an in-depth investigation of agriculture/business as a key vector of development (almost half of Indians are employed in the sector), seeking to identify measures specific to the sector.[1]

The project team carried out desk research and 45 separate structured interviews between May and August 2020 to gather first-hand information and insights from key stakeholders. These included foreign firms, domestic firms, business associations, academics and civil society. This report relays the draft findings by identifying 23 potential policies and measures at the economy level and 16 potential policies and measures in agribusiness. In each case, these are organized into five categories, reflecting the five dimensions of sustainable investment: (1) sustainable investment policies; (2) sustainable finance mobilization; (3) sustainable investment promotion; (4) sustainable investment facilitation; and (5) sustainable development impact (see section 2.5 and Appendix). In addition, six draft potential policies and measures related to OFDI and 10 focused on state governments are also included. In total, 55 options to increase sustainable investment are presented.

The aim of this report is to share these draft policy measures for review, revision and improvement through feedback from stakeholders. This will take place by first sharing the report widely and then convening a series of workshops. Through this process, a select number of priority measures will be identified, which could be implemented with support from the World Economic Forum, should there be interest from policy-makers.

> **Sustainability means profitability in the long term.**
>
> (Project interview)

> **Deciding to invest is hard because everything has become unpredictable. As a business, we want to minimize the risk of business not being viable in the future. Five years in the future, competition will start to eat in, so it is good to have clarity in terms of what kinds of business would survive. Sustainable investment de-risks the business, and when there are upheavals or shocks, we can survive.**
>
> (Project interview)

Below: Getty Images

2

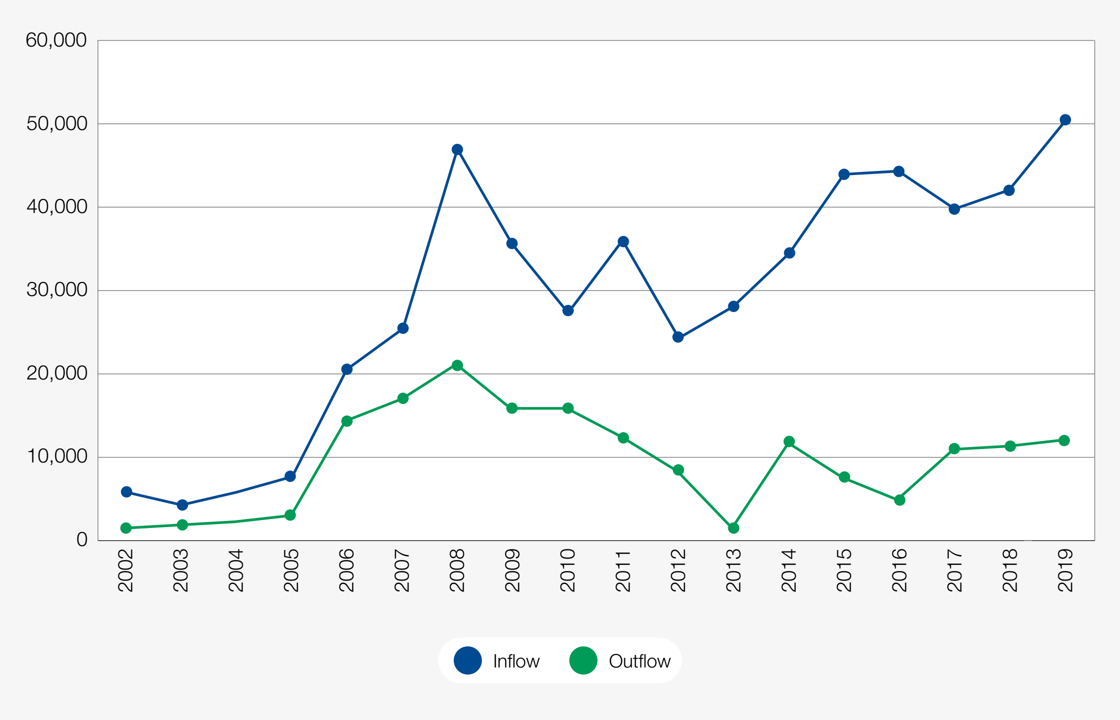
Context and project design

Policies and measures can be adopted:
(a) at the national and subnational levels;
(b) economy-wide and sector-specific; and
(c) for inward FDI and outward FDI.

2.1 Why India?

India became the ninth-largest recipient of foreign direct investment (FDI) in 2019, with inflows of $51 billion that year. This marked a jump of more than 20% from the $42 billion the economy received the year before, when India was ranked 12th in the world in terms of FDI inflow (see Figure 1).

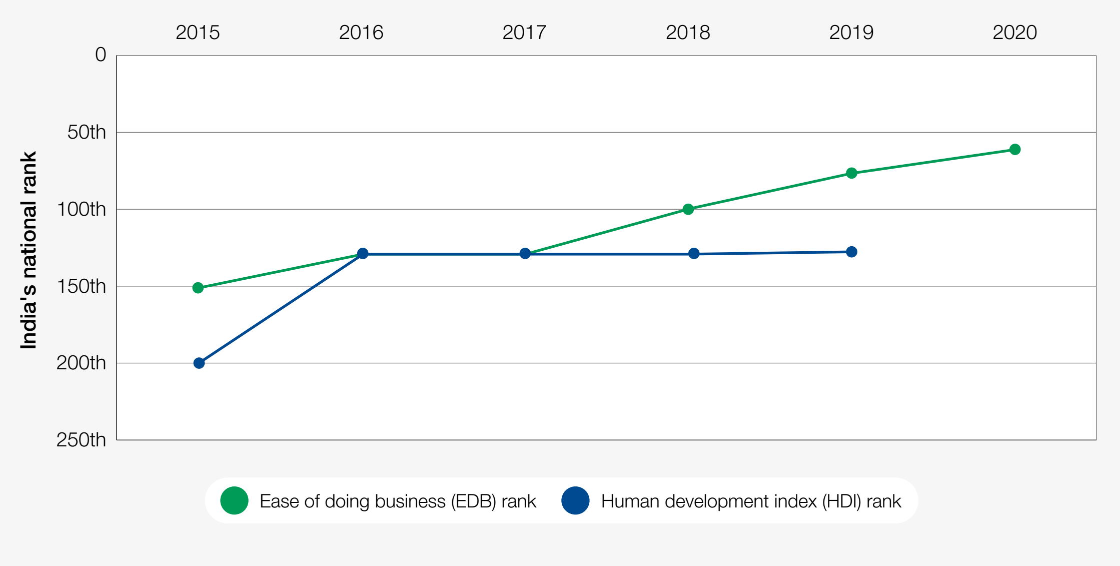
FIGURE 1 **India's FDI inflows and outflows, $ million (2002–2019)**



Source: UNCTADStat

This jump is likely due to improvements in ease of doing business (EDB), as measured by the World Bank Group (WBG), a high-profile policy objective of the Government of India (GOI): through concerted effort, India climbed the rankings from 142nd in 2015 to 63rd in 2020 (see Figure 2). Moving up 79 spots in five years is quite an accomplishment and deserves recognition. This has been complemented by a number of domestic reform initiatives, including Make in India (to boost investment), merchandise exports from India and services exports from India (to increase exports), government e-marketplace (to improve procurement) and Startup India (to encourage entrepreneurship).

FIGURE 2 **Comparison of India's HDI Rank and EDB rank (2015–2020)**



Source: UNDP and WBG

At the same time, the country's human development index, as measured by the United Nations Development Programme (UNDP), has moved up, although not so rapidly. It jumped from 200th place in 2015 to 129th in 2016, but has since stayed around the same level (see Figure 2). Interestingly, India received the same or almost the same score for both indexes in 2016 and 2017, but then India's EDB score took off, while its HDI stayed flat. The same plateau can be observed in India's OFDI flows during these past few years.

This argues for strengthening policies and measures to ensure that the growth in inward investment flows translates into improvements in sustainable development for the country. It also argues for considering targeted support measures for Indian firms to invest abroad. There is ample evidence that investment flows – both inward and outward – can lead to sustainable development, but that this is not automatic, and it requires supportive actions.[2]

The private sector is on board, but the channels and mechanisms are not yet there. According to Morningstar, funds focused on environmental, social and corporate governance (ESG) have surpassed $1 trillion for the first time, growing even amid the COVID-19 pandemic.[3] India at present accounts for only a fraction of this market, but ESG interest and investments have been growing.[4] As one leading voice stated, "If India is going to focus on attracting large-scale, long-term institutional investors, then it needs to look at the ESG factors … it's no longer World Bank ranking (on ease of doing business). Investors are rewarding companies that are looking at ESG factors."[5]

This is why it is imperative to advance a "Second-Generation EDB Reform Agenda": sustainable investment policies and measures can build on India's EDB success to boost not only investment flows into and out of the county but also – and especially – their development contribution. The aim of this project is to identify how to do so in practice by providing concrete, actionable levers for consideration. These strive to be relevant both to help the country rebound from the challenges of COVID-19 and drive long-term, sustainable growth.

2.2 The impact of COVID-19

The COVID-19 pandemic emerged just as the project got under way: it was a huge shock to the global economy and, of course, India. Travel and movement were restricted and interviews had to take place virtually. At the same time, to ensure that the project was as useful to India's recovery as possible, new questions related to COVID-19's impact were added. In addition, a detailed investigation of the tourism sector, which had been intended as a second sectoral focus, had to be shelved as many of the firms in the sector were struggling to stay afloat. If the situation improves, the project plans to cover the tourism sector in 2021.

The majority of firms reported that the pandemic led to changes in their investment decisions. Many firms chose to delay investment to conserve cash in order to manage a downswing and uncertainty. However, a surprising number used investment to pivot operations or to seize new opportunities. These included investments to redesign supply chains or increase sales through digital technologies. Some considered expanding investment to seize opportunities by acquiring distressed firms. A subset actually grew their operations significantly because their goods and services were essential or related to health.

To help support investors through the challenges of COVID-19 and beyond, the central government introduced several general initiatives, sector-specific schemes and state-level programmes to boost manufacturing in the country and attract large-scale investments. Two are highlighted here as particularly noteworthy.

In June 2020, the Union Cabinet approved the constitution of an Empowered Group of Secretaries (EGoS) for investment and the setting up of project development cells (PDCs) in 29 ministries/departments to fast track investments in coordination between the central government and state governments in order to facilitate the development of an investor-friendly environment for those looking to invest in India.[6]

Then in November 2020, a production-linked incentive (PLI) scheme was introduced in 10 key sectors with the aim of making Indian manufacturers globally competitive; attracting investment in the areas of core competency and cutting-edge technology; ensuring efficiencies; creating economies of scale; enhancing exports; and making India a core part of the global supply chain. The sectors under the scheme include advanced chemistry cell batteries, high-efficiency solar photovoltaic (PV) modules and white goods (e.g. air conditioners and light-emitting diodes or LEDs), among others.[7]

> **We have not cancelled our investment plan as of now, but we have changed the allocation of investment due to COVID-19. We are evaluating the viability of all opportunities which we are receiving during the COVID-19 situation.**
>
> Project interview

2.3 Why these three states?

The three states of Assam, Madhya Pradesh and Telangana were selected for the project. All three have agriculture/agribusiness and tourism as key priority sectors for development, while at the same time they represent a diversity of sizes and geographical locations.

In addition, the three have fared well in the EDB rankings of Indian states undertaken by the Department for Promotion of Industry and Internal Trade (DPIIT).[8] Telangana and Madhya Pradesh have consistently been ranked as "top achiever" states, while Assam has been among the "fast movers".

Assam

One of the areas of growth identified by the government for foreign investors is cultivation of bamboo and cane, which are useful in building sustainable housing and making biodegradable daily-use products such as utensils, bags, etc. The aim is for homes in the future to be eco-friendly, with the government stating that it will formulate new policies as and when opportunities start to emerge in the aforementioned sectors and that it sees them as a high priority in terms of attracting FDI. Some of the other key sectors identified by the state with potential for attracting investment include agri-horticulture and food processing, tourism, handloom and handicrafts, and pharmaceuticals and petrochemicals.

Madhya Pradesh

The state is a leading producer of horticulture crops and is seeking to grow its food-processing industry. The state also offers opportunities in agricultural equipment manufacturing and soya processing (in addition to textile manufacturing and cars). As the majority of the population in Madhya Pradesh is engaged in agriculture, there have been discussions on creating sustainable income opportunities for farmers and seasonal labourers alike, while minimizing environmental degradation. Issues such as regional disparity in crop production, lack of decentralized storage facilities and vulnerability to climate change are being discussed, leading to the formulation of local-level policies aided by technology and scientific prowess.

Telangana

The state is one of the leading producers and exporters of horticulture crops, including lemons, oranges and turmeric, among others. Sericulture and fisheries are other priorities for investment, with the state having the third-largest pool of inland fishery resources in the country. The state has remained in the top two in terms of EDB in India for the past three years. Since Telangana is a landlocked state, export logistics costs are higher than in coastal states, which has pushed the government to focus also on sectors such as information technology and pharmaceuticals; these areas avoid high export logistics costs but they also require a higher level of skills.

In 2017, Invest India and the WBG conducted Phase I of an assessment of the investment promotion preparedness of state investment promotion agencies (IPAs) in India, based on a 55-parameter survey. In 2019, Phase II of this exercise was conducted on an expanded and more comprehensive 74-parameter survey. The IPAs of all three states (Assam, Madhya Pradesh and Telangana) have taken noteworthy steps in the past three years to establish state investment teams that not only promote investment opportunities in their respective regions but also extend hand-holding support to all investors in navigating the different steps throughout the investment life cycle.

Assam: Observing the increasing interest in the investment landscape of Assam, the state government set up the Invest Assam Foundation, an IPA to extend advisory and other support to those setting up shop in the state. This came about through the Industries Department of Assam and Invest India working together to create this new institution from scratch, designing its mandate, organizational structure and broad key performance indicators (KPIs), as well as roles and responsibilities.

Madhya Pradesh: The Madhya Pradesh Industrial Development Corporation (MPIDC) is both the state's IPA and industrial development corporation (IDC). This agency was created in the past two years after subsuming other agencies that play important roles at different stages of the investment life cycle. After the restructuring, MPIDC set clear KPIs to track its performance against critical roles and responsibilities, such as investor outreach and investment intentions, EDB, infrastructure development, fiscal incentives, sustainable development and skill development. Further, it has identified a limited set of "focus sectors", and based on this, a list of "focus countries", along with possible areas of collaboration with each of them, included in MPIDC's strategy document.

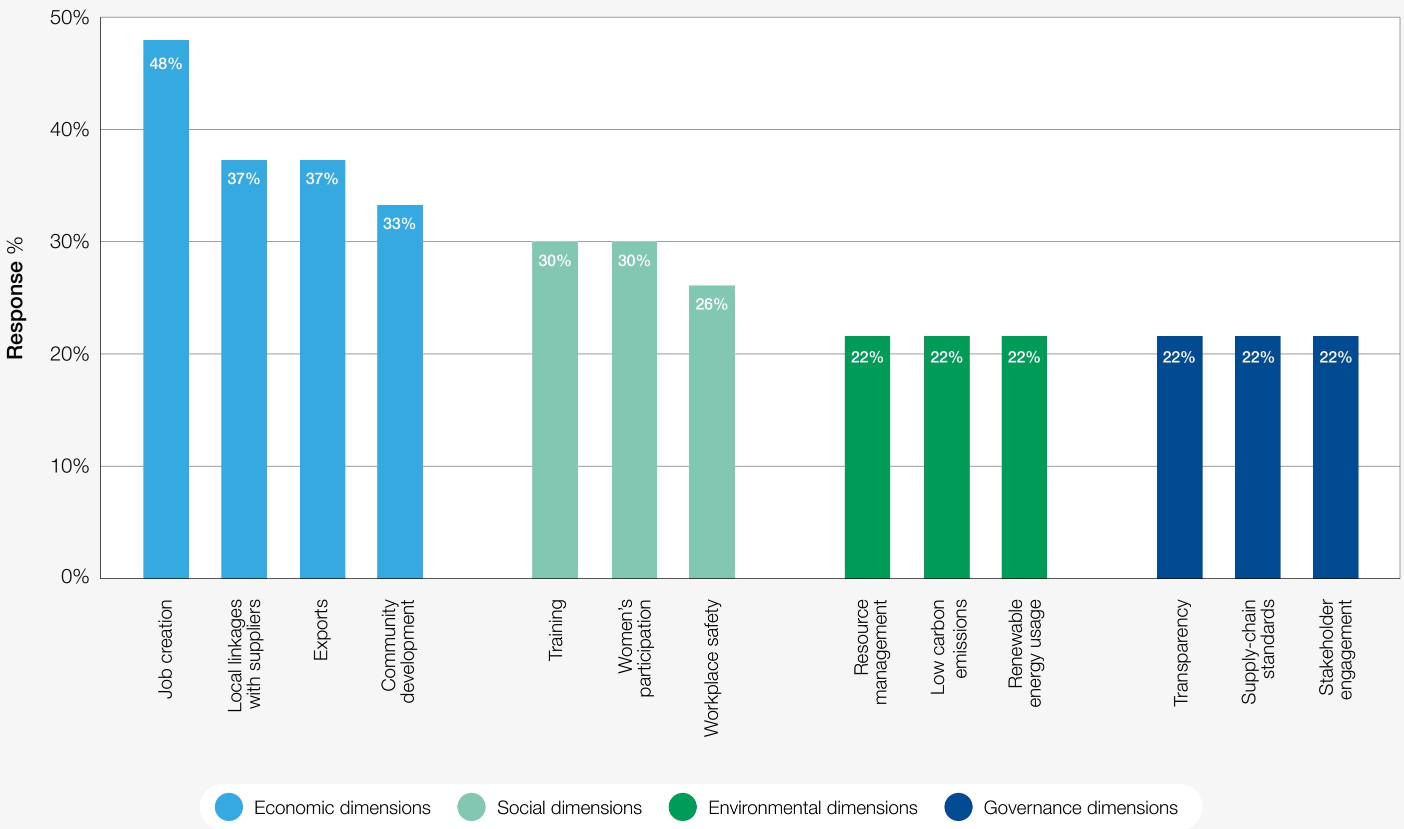
Telangana: In addition to the Invest Telangana cell, the state government has recruited individuals from the private sector who have domain expertise in sectors recognized as "focus sectors" by the state. These officials, referred to as sector directors, work closely with the relevant line department in the state government, Invest Telangana cell and Investment Chasing cell, undertaking investment promotion, targeting, facilitation, aftercare and policy research and advocacy. The concept of having sector directors ensures that a team of specialists with relevant industry experience working as an extended arm of the state government will understand both the investor's point of view and that of the state government, and aid in bridging the gap between the two.

The project therefore covers states with different strengths, approaches and institutional capacity in investment promotion and facilitation in order to ensure that findings might be broadly relevant across India. At the same time, the three states have indicated a strong commitment to undertaking reforms to improve their investment climate, and state officials have expressed support for the project, especially because of its focus on increasing the sustainable development contribution of investment flows.

2.4 Top development benefits from investment

In order to ensure that this work focused on increasing the development impact of investment, the interviews began by asking stakeholders to identify from their experience the top five sustainable development benefits from investment across four dimensions (economic, social, environmental and governance).[9] This is an important step as it can orient reforms and measures so that they can help achieve these priority development benefits. The top development benefits from investment identified by stakeholders can be seen in Figure 3, out of a total list of 33 options.[10]

FIGURE 3 **Top development benefits from investment**



Source: Project interviews, answered by 27 respondents

The data shows that the top benefit desired from investment is jobs, identified by almost half of respondents; this is not surprising, but it is helpful to have quantitative evidence that jobs are of paramount importance when it comes to ensuring that investment generates development impact.

At the same time, other development benefits are also considered important, across the different dimensions of economy, social, environmental and governance. These findings are useful because they can help orient which measures to prioritize and how they may be implemented. In other words, policy-makers may wish to try and leverage investment for specific development benefits by selecting measures that are more likely to lead to those development benefits, and/or design measures in ways to specifically promote those development benefits.

Select examples are presented in the box below, for illustrative purposes only – many other measures included as options in the report may also support these top development benefits.

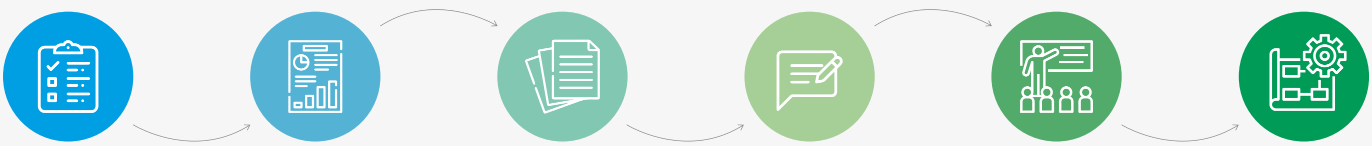
TABLE 1 **Examples of measures that could contribute to specific development benefits**

Development impact	Example measure	Section
Jobs	Create a category of recognized sustainable investor (RSI)	3.3.3
Local linkages with domestic suppliers	Develop a supplier database with sustainability dimensions (SD^2)	3.4.3
Exports	Orient special economic zones (SEZs) to sustainability	3.5.3
Community development	Use clusters to distribute sustainable investment practices	3.5.4
Women's participation	Develop a supplier database with sustainability dimensions (SD^2)	3.4.3
Workplace safety	Encourage investment in technology solutions for health and safety	3.1.2
Training	Support short courses through industry-academia collaboration	3.5.1
Resource management	Aligning incentives with sustainable behaviour	6.3.1
Low carbon emissions and renewable energy	Incentives follow through, targeted at sustainable sectors or activities	3.3.1
Transparency	Digital solutions to simplify administrative procedures	3.4.1
Supply chain standards	Responsible business conduct and guidelines; guidelines and policies for specific industries	3.1.1 and 3.1.2
Stakeholder engagement	Public-private dialogue and cooperation mechanisms	3.5.2

2.5 Next steps

The project will take place in six stages, as outlined in Figure 4. Following planning (stage 1) and data gathering (stage 2), this draft report (stage 3) will be circulated for comment to receive feedback for improvement (stage 4), and then discussed in workshops so that the options can be improved on and, especially, prioritized (stage 5). The project team could then help support the implementation of a subset of priority measures (stage 6), if this were deemed useful and if there were support from key actors. In consultation and coordination with policy-makers, the project team would create an action plan for each shortlisted measure and then help implement the action plans throughout 2021.

FIGURE 4 **Six stages of sustainable investment project in India**



1. Planning
– Desk research
– Coordination
– Team building
– Stakeholder mapping
– Interview scheduling

2. Data gathering
– 45 interviews
– Consultations (central government and state governments)

3. Draft report
– Long list of reform options
– Four different areas (econ-level, agribusiness, outward FDI, subnational)

4. Feedback
– Report circulated for comment
– Reform options improved

5. Workshops
– Options discussed in workshops
– Options improved and prioritized

6. Implementation
– Support for implementation of a subset of measures

Source: World Economic Forum

To help with receiving feedback, the rest of this report is organized as follows: Section 3 lays out 23 draft economy-level policies and measures to increase sustainable investment. Section 4 outlines six policies and measures to leverage OFDI for India's sustainable development, while section 5 suggests 10 policies and measures that may be particularly important at the subnational level for state investment authorities to consider. Section 6 then presents 16 draft policies and measures specific to agriculture or agribusiness, following the sectoral deep dive.

TABLE 2 **Sustainable investment policies and measures at different levels or focus areas**

Section 3	Section 4	Section 5	Section 6
23 draft economy-level policies and measures	**6** draft policies and measures to leverage OFDI	**10** draft policies and measures important at subnational level	**16** draft policies and measures specific to agriculture/ agribusiness

Throughout, the World Economic Forum's Sustainable Investment Framework was used to organize the different options that India might consider. This framework suggests that sustainable investment is composed of five complementary and mutually reinforcing dimensions: (1) sustainable investment policies, (2) sustainable finance mobilization, (3) sustainable investment promotion, (4) sustainable investment facilitation; and (5) sustainable development impact (see Figure 5).

FIGURE 5 **World Economic Forum Sustainable Investment Framework**

Source: Elaborated from UNCTAD WIR14 and consultations with James Zhan

The framework builds on the action plan to increase investment in the Sustainable Development Goals (SDGs) laid out by the United Nations Conference on Trade and Development (UNCTAD) in its 2014 *World Investment Report*, coupled with consultations in 2019 with senior UNCTAD officers.[11] More detailed information, including on the elements, tools and actors in each dimension, can be found in the Appendix.

Below: Getty Images

3 Potential economy-level policies and measures

India may wish to consider 23 potential policies and measures at the economy level across the five dimensions of sustainable investment.

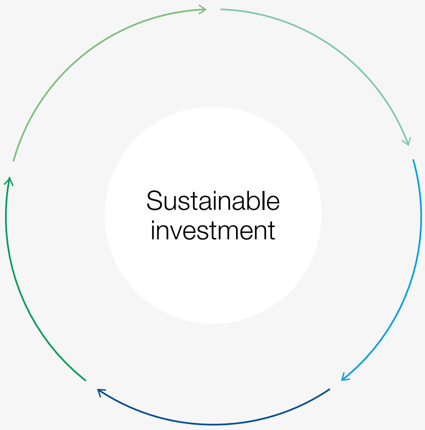
The project identified 23 potential policies and measures at the economy level across the five dimensions of sustainable investment (see Figure 6). A possible priority element for each dimension is then presented to help spur discussion, selected using the criteria of impact, innovation and feasibility.

FIGURE 6

Economy-level policies and measures across the five dimensions of sustainable investment

Policies

1. Guidelines for specific industries
2. Technology for health and safety
3. Investment in circular economy
4. Impact assessments for large-scale investments
5. RBC guidelines



Finance

1. Sustainability reporting and use of common standards
2. Sustainability ratings and link to financing
3. Blended finance
4. Impact investment
5. Platform to align finance and connect to firms through CFR

Impact

1. Short courses through industry-academia collaboration
2. Public-private dialogue and cooperation mechanisms
3. SEZs oriented to sustainable investment
4. Use of clusters to distribute sustainable investment practices
5. International programmes for private-sector capacity-building

Facilitation

1. Digital solutions to simplify administrative procedures
2. Guarantees and insurance targeted to sustainable investment
3. Supplier database with sustainability dimensions

Promotion

1. Incentives follow through and targeting
2. Advisory services for sustainable investment
3. Recognized sustainable investors
4. Rating and monitoring mechanism
5. Sustainable investment stamp

Possible priority element in each dimension, for discussion

Policies	Finance	Promotion	Facilitation	Impact
Encourage investment in technology for health and safety	Develop sustainability ratings and financing costs	Create a category of recognized sustainable investor and a "sustainable investment stamp"	Develop a supplier database with sustainability dimensions (SD^2)	Orient SEZs to sustainable investment

3.1 Sustainable investment policies

The most popular policies that stakeholders identified for supporting sustainable investment are presented in Figure 7: 90% of stakeholders identified guidelines for specific industries as an important policy, followed by state laws and regulations (86%) (addressed in sections 5.1–5.6), national laws and regulations (not including corporate social responsibility [CSR]) (84%), and impact assessments of investment projects (75%).

FIGURE 7 **Important policies identified by stakeholders in support of sustainable investment**

3.1.1 Adopt sustainable investment guidelines for specific industries

Consider adopting guidelines and policies tailored to specific industries to encourage sustainable investment. Investors report that it is at the industry level that investment decisions take place, and so it is at the industry level that certain guidelines and policies may be most effective. For instance, in the solar industry, policies affect equipment prices, energy trading and power purchase agreements (PPAs), making sustainable investment relatively more or less attractive. India could consider adopting or adapting guidelines that have already been developed: for instance, the Organisation for Economic Co-operation and Development (OECD) (with WBG and UNDP input) guidelines for investment in clean energy could be used for the solar industry.[12]

Subsidies and incentives are secondary. Keep your regulations dynamic.

Project interview

3.1.2 Encourage investment in technology for health and safety

Consider adopting policies to encourage investments in technology solutions that can help achieve corporate and development goals. These include: monitoring safety in manufacturing operations to increase worker protection; management of processes to improve environmental protection; and pollution control, among others.

> **Most of the SDGs can be fast-tracked through focused interventions in technologies. However, most areas of application fall under public good and therefore such technology implementations are overshadowed by cost-benefit analysis and other considerations. It is therefore imperative to have … strong policies that can identify and encourage promising [technology solutions].**
>
> Project interview

3.1.3 Encourage investment in the circular economy

Consider adopting policies that encourage investment in the circular economy. Investment can help at once to operationalize the circular economy and create value across the spectrum of business operations. In so doing, investment in the circular economy has the potential to enhance both competitiveness and resilience, while also providing development benefits, including in the form of jobs and improvements in living conditions.

However, this requires supportive policies and measures that encourage investment in activities that link industries in a circular way. Such supportive policies can encourage investment in repairing, reconditioning, remanufacturing, reusing or recycling. To illustrate this, farm stubble is currently being used as a raw material for biofuel, which is then converted to sustainable aviation fuel (SAF). These kinds of industry linkages can be strengthened; for instance, through incentivizing the use of SAF compared to the regular aviation turbine fuel (ATF), which would in turn increase the productive use of stubble.

3.1.4 Strengthen the use of impact assessments for large-scale investments

Consider strengthening the use of environmental and social impact assessments (ESIAs) to evaluate *ex ante* large investment projects and ensure they align with India's development goals. Such impact assessments can determine both approval of the project and the level of promotion and facilitation provided, with investments that provide a larger contribution to development receiving greater or fast-tracked support (see section 3.3). Stakeholders report that the Japan International Cooperation Agency (JICA) recently used impact assessments when deciding to finance metro lines in India.

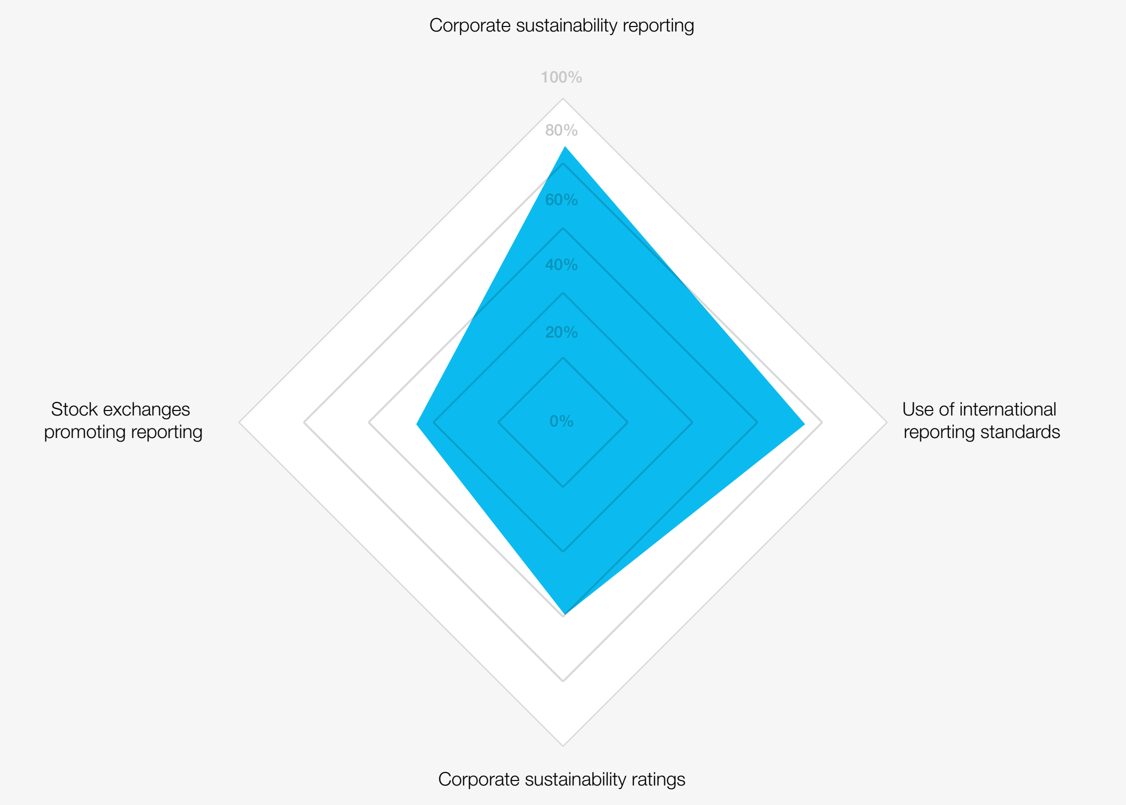
3.1.5 Embrace principles of responsible business conduct

Consider encouraging firms to invest sustainably by following principles of responsible business conduct (RBC), such as complying with the law, respecting rights and protecting the environment.[13] Policy-makers can encourage this in different ways. First, they can include guidelines in their guidance and regulations to suggest how firms should carry out investment, such as those from the International Chamber of Commerce (ICC), OECD, United Nations (UN) and International Labour Organization (ILO).[14] Second, policy-makers can partner with firms that seek to invest according to RBC principles, combining public- and private-sector resources. One way to operationalize this is through the recognized sustainable investor (RSI) measure (see section 3.3.3).

3.2 Sustainable finance mobilization

The most important measures that stakeholders identified for mobilizing sustainable finance are presented in Figure 8: 86% of the stakeholders identified corporate sustainability reporting as an important measure, followed by use of international reporting standards (75%), and then corporate sustainability ratings (40%).

FIGURE 8 **Important measures identified by stakeholders in support of sustainable finance mobilization**



3.2.1 Encourage sustainability reporting and use of common standards

Consider encouraging the increase in sustainability reporting by firms. This could either be through incentives, soft guidelines or hard requirements; for example, for firms or investments above a certain size. Sustainability reporting enables actors to make informed decisions on the impact of investments on sustainability outcomes. Given the proliferation of standards and ensuing confusion, the World Economic Forum has worked with industry to create a framework of common metrics and consistent reporting, which could be a helpful starting point for the Indian government and industry.[15] It could also help address Indian firms' request to have a template or format for sustainable reporting.

There could be requirements [for] investments in sustainable activities that require a specific level of reporting: they represent useful tools for companies that have a segregated sustainable business that they would like to develop.

Project interview

I realized that if we want to partner with global majors, we need a sustainability report as they are about sustainability … our brochures are green colour, green font as this helps with sales in developed markets.

Project interview

3.2.2 Develop sustainability ratings and link to financing

Consider developing sustainability ratings for firms and linking the availability of finance or borrowing cost to a firm's sustainability rating. For instance, firms with higher sustainability ratings would benefit from more favourable interest rates or a longer repayment period, incentivizing a move towards more sustainable operations. One way to operationalize this suggestion is to use credit rating agencies' new ESG ratings, with the big three (Fitch, Moody's and S&P Global) all launching such ratings in 2019 or 2020[16].

> **Credit rating agencies should incorporate ESG factors in their methodologies in a transparent way, so that issuer credit ratings incorporate risks and opportunities related to sustainability.**
>
> Project interview

> **[We need] some kind of clear rankings of firms based on impact created on the SDG goals and incentives linked to these rankings.**
>
> Project interview

3.2.3 Use blended finance

Consider using blended finance to help improve access to capital by smaller and rural entrepreneurs who commit to operate sustainably. Businesses report that access to sustainable finance can be difficult at the start-up or early stages in India, or, if finance is available, interest rates can be high. For instance, smaller firms apparently sometimes need to furnish more than 100% collateral to access finance. One solution is for public finance to be used to de-risk private finance through blended finance solutions, lowering the interest rates to access such capital.

> **While the focus has primarily been on subsidized loans and guarantees, we would recommend a greater emphasis on blended finance solutions.**
>
> Project interview

3.2.4 Attract impact investment

Consider encouraging impact investment funds to enter or operate in the Indian market. Impact investment capital is growing internationally, and so a concerted effort could be made to attract such capital to India; for instance, through outreach, understanding the needs of such investors to enter the Indian market and targeted facilitation. The increasing interest in impact investment in India is illustrated by the India Impact Investing Week on 5–9 October 2020,[17] or by a recent Centre for Social and Economic Progress report.[18]

> **There are some impact-based funds available in India like Avishkaar, Asha Impact, Caspian, etc.; however, they are very few in number and most of them are unable to make large investments.**
>
> Project interview

3.2.5 Create a platform to align finance and connect to firms through CFRs

Consider creating a platform to help align and coordinate sources of finance in support of India's national development goals, as well as to connect such sources of finance to firms undertaking sustainable investment projects, thus helping to connect supply and demand. The World Economic Forum and the OECD are working with national governments to align and coordinate different sources of finance through country financing roadmaps (CFR), which might be a useful tool for India to consider.[19]

> **We propose that a network is created for companies in sustainable investment where exchange of information can happen and companies that have got investment can be highlighted and showcased [and that can facilitate access to investment by other firms].**
>
> Project interview

> **There is a tremendous need for a platform.**
>
> Project interview

3.3 Sustainable investment promotion

The most important measures that stakeholders identified for sustainable investment promotion are presented in Figure 9: 86% of stakeholders identified targeted incentives to sustainable sectors or activities as an important promotion measure, followed by targeted incentives to sustainable investors (82%).[20]

FIGURE 9

Important measures identified by stakeholders in support of sustainable investment promotion

3.3.1 Follow through with incentives and target them at sustainable sectors or activities

Consider ensuring there are mechanisms that allow for follow-through so that incentives will be seen as an effective instrument by investors, as there have been instances of delays in incentives materializing. In addition, consider a number of possible financial mechanisms to incentivize sustainable investment. Through the interview process, firms suggested that capital gains tax could be deferred on investments that are sustainable, which could help shift investments in this direction. This would require identifying which are sustainable investments, discussed below in section 3.3.3. Another financial mechanism could be the further development of carbon credits, which have already been used successfully by a number of Indian firms. Domestic firms could have their current carbon footprint estimated, and if they are able to reduce their carbon output, this could result in a domestic credit from the government.

> **We need to realign the incentives and other measures such that they drive long-term changes in the way businesses function.**
>
> Project interview

3.3.2 Subsidize advisory services for sustainable investment and operations

Consider helping firms chart a path of sustainable investment and operations through subsidizing specialized consulting support. Some firms indicated that they were unsure how best to transition operations to be more sustainable and suggested that advisory services provided by a consultant could help. The government could either provide these services directly or help hire a consultant; for instance, through the firm paying half the cost and the government paying the other half, so that the firm shows it is willing to commit resources to the task and goal, with its “skin in the game”.

> **For R&D investment, the government gives you a credit; the government could do something similar for sustainable investment, for instance, providing 50% offset of the cost of the consultant.**
>
> Project interview

3.3.3 Create a category of recognized sustainable investors

Consider identifying and recognizing sustainable investments by creating a category of investors who are acknowledged as operating according to international RBC standards[21] and who commit to making specific contributions to India’s national development goals (e.g. jobs, training, environmental management; see section 2.4). Firms that meet these criteria could be designated ‘recognized sustainable investors’ (RSIs) and receive additional support whether in the form of incentives (see 3.3.1), fast-tracked approvals or lighter regulatory reviews – the government could determine what types of additional support they wished to provide.[22] There is precedent for such an approach in trade facilitation, which recognizes certain traders as authorized economic operators (AEOs) when they demonstrate their commitment to good practices in trading and are thus provided with additional support.

> **Investment policies should recognize businesses that are good for the people, good for society, good for the environment.**
>
> Project interview

> **We have made investments into the recycling of plastics; this has to be recognized by the government.**
>
> Project interview

> **Sustainability should be part of the proposal with the impacts listed.**
>
> Project interview

3.3.4 Develop a rating and monitoring mechanism for sustainable investors

In addition, consider introducing a system of rewards to provide incentives for firms to increase their sustainable operations over time. This could be done through a star rating (bronze, silver or gold) or score (1 to 10). A third-party mechanism could be set up to monitor and evaluate the fulfilment of the commitments in order for firms to qualify for the additional support. There is a precedent for such a star system; Cambodia’s tax authorities, for instance, make a commitment not to audit firms for several years if they receive a gold-star rating because of their established track record.

> **[There should be] a clear mandate of monitoring the progression of objectives and in case it falls, either remove the incentives or penalize.**
>
> Project interview

3.3.5 Promote sustainable investment through a 'sustainable investment stamp'

Consider creating a "sustainable investment stamp" that would identify a good or service that was created or provided through sustainable investment and RBC. In the first instance, firms designated RSIs (see section 3.3.3) would be able to communicate this recognition through such branding. This would be appealing if consumers then demanded more of these branded goods and services. There is a precedent for firms using such branding to increase consumer loyalty and consumption; for instance, the Swiss juice-maker Opaline includes a stamp on its label indicating that it has received the Ethics Prize in Switzerland.[23] This could also be implemented at the state level with a focus on priority goods and services that are important to that particular state (see section 5.2). Celebrity endorsement of products with the sustainable investment stamp could also play a role.

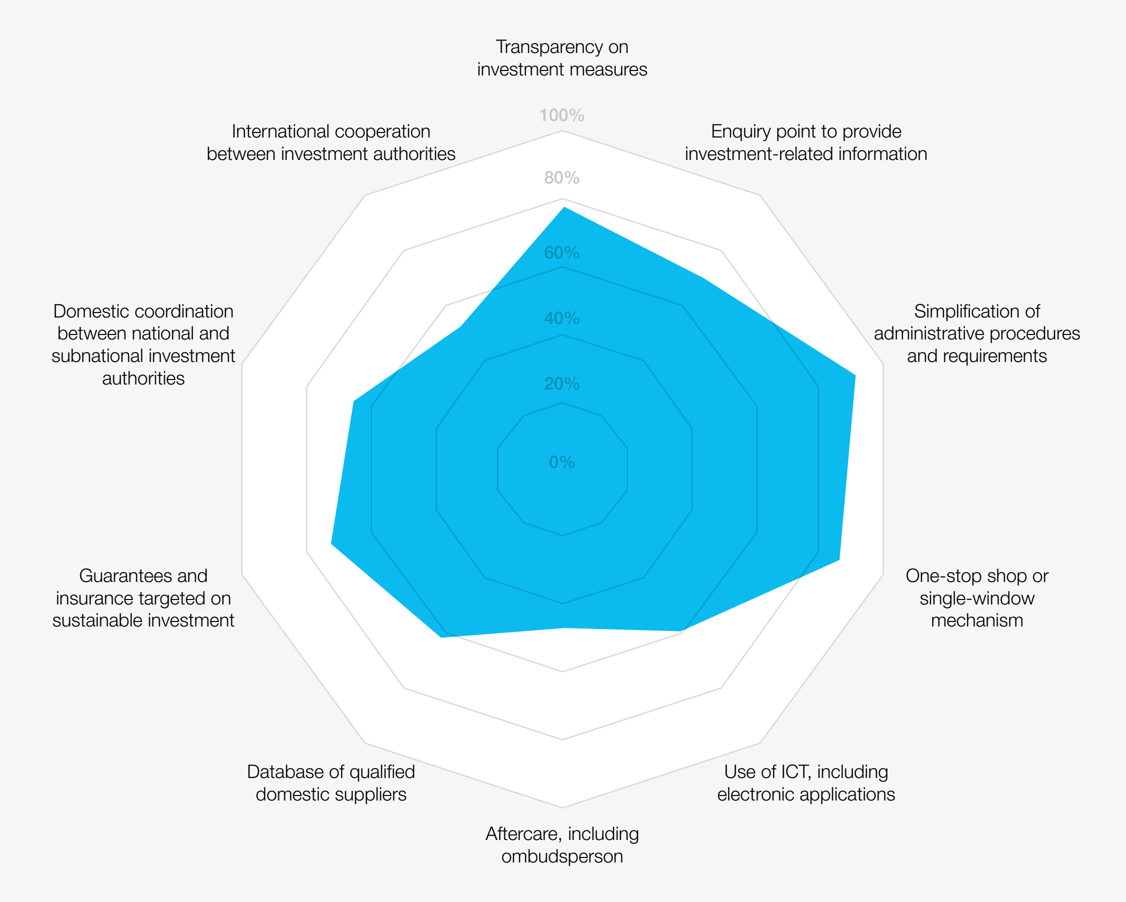
> **Sustainable investments should be incentivized, recognized and publicized in such a way that the people know about it.**
>
> Project interview

3.4 Sustainable investment facilitation

The most important measures that stakeholders identified for sustainable investment facilitation are presented in Figure 10: 91% of stakeholders identified simplification of administrative procedures and requirements as an important measure, followed by a one-stop shop or single-window mechanism (86%) and transparency on investment measures (77%).

FIGURE 10

Important measures identified by stakeholders in support of sustainable investment facilitation



3.4.1 Continue to adopt digital solutions to simplify administrative procedures

Consider continuing to adopt digital solutions, as envisioned by the Digital India programme, to facilitate investor operations. India has made a concerted effort to facilitate investment through digital solutions, but gaps may remain; for instance, in the area of banks requiring physical signatures. Given India's digital strength, this may be an area that can set it apart from other investment destinations. However, even though investors identified this as a priority, because the simplification of administrative procedures and requirements is well under way in India and these do not directly relate to sustainability, they will not be the focus of this report. In addition, when regulatory impact assessments are carried out, one of the stated objectives could be promoting sustainability.

> **For sustainable investment, it is essential to have a business-friendly environment. This means businessmen [businesspeople] should find it easy to do business, easy to run a business, and easy to run it profitably.**
>
> Project interview

3.4.2 Orient guarantees and insurance to sustainable investment

Consider orienting insurance to sustainable activities. This could be done either through sustainable investments receiving insurance at a lower premium, or through certain insurance being made available only to sustainable investments. There is a precedent for such a measure: for instance, the Multilateral Investment Guarantee Agency (MIGA), part of the WBG, requires that projects be operated in a manner consistent with environmental and social performance standards to be supported with a guarantee.

3.4.3 Develop a supplier database with sustainability dimensions (SD^2)

Consider creating a database of qualified domestic suppliers to facilitate investment, but at the same time include sustainability dimensions so that investors can easily contract with suppliers and vendors that follow sustainable practices. Having sustainability dimensions can help investors who wish to operate according to ESG principles more easily find firms that meet these criteria; at the same time, given growing finance that seeks ESG opportunities, domestic firms will have an incentive to shift operations to become more sustainable in order to qualify for such capital. This can create a virtuous, sustainable investment cycle.

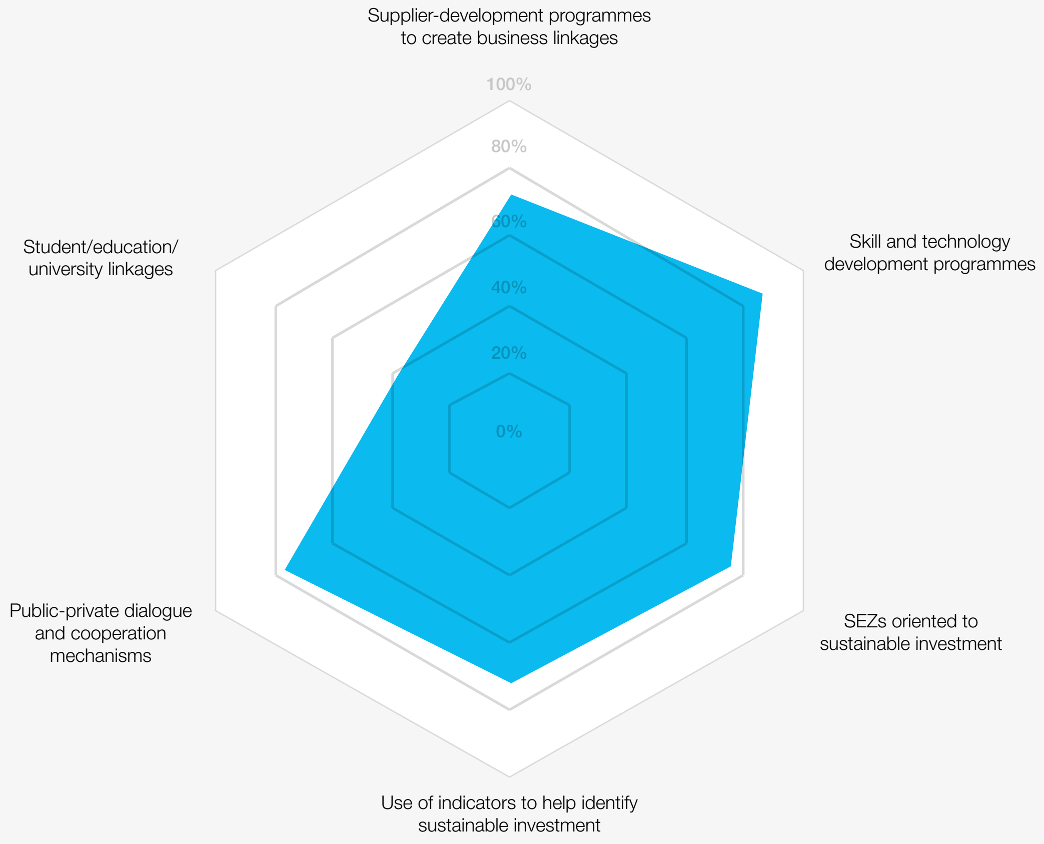
> **There is international demand to move from low-cost suppliers to sustainable suppliers.**
>
> Project interview

3.5 Maximize sustainable investment's development impact

The most important measures that stakeholders identified for supporting sustainable investment development impact are presented in Figure 11: 86% of stakeholders identified skill and technology development programmes as an important measure, followed by public-private dialogue and cooperation mechanisms (76%), SEZs oriented to sustainable investment (75%), and supplier-development programmes to create business linkages (73%).

FIGURE 11

Important measures identified by stakeholders in support of investment's development impact



3.5.1 Support short courses through industry-academia collaboration

Consider facilitating collaboration between industry and academia on skills development through short courses. Industry could advise on their requirements in hiring skilled employees, and academic institutions could provide courses that develop these skills, especially those oriented towards sustainable business practices. For example, the Mahratta Chamber of Commerce, Industries and Agriculture (MCCIA) has helped develop courses on the internet of things (IoT) in process manufacturing, rubber technology and electric vehicles through collaborations with the Vishwakarma Institute of Information Technology (VIIT) in Pune and the Birla Institute of Technology and Science (BITS) in Pilani. In addition, academic research could examine how to ensure products and processes are sustainable.

We are looking forward to designing courses that will meet the requirement of nearly 28 industrial segments. Some of them are rubber, die-casting, hydraulics, CNC machine-programming and tool-and-die maintenance. This initiative is expected to benefit industries like auto and auto components, consumer electronics and others.

Project interview

3.5.2 Ensure public-private dialogue and existence of cooperation mechanisms

Consider ensuring there are effective mechanisms for consultation with investors on policy developments affecting their operations. The firms interviewed expressed a desire to be more involved in policy-making dialogue, and Invest India could play a key role in building this bridge by seeking and conveying investor preferences through policy advocacy, in addition to business associations such as the CII and the Federation of Indian Chambers of Commerce & Industry (FICCI). Perhaps there are already well-functioning mechanisms for such consultation to which investors can be directed; for instance, through information on Invest India's website.

> **We, as a foreign investor, would like to see more transparency in governmental procedures and easy involvement in policy-making. We are good with the rest … the policy-making process should be involving more stakeholders.**
>
> Project interview

3.5.3 Orient special economic zones to focus on sustainability

Consider orienting SEZs to include a focus on sustainability through high ESG standards, or create new SDG-model zones. This is a new idea that was presented in UNCTAD's 2019 *World Investment Report*.[24] Such zones would aim to attract investment in SDG-relevant activities, adopt the highest levels of ESG standards and compliance, and promote inclusive growth through linkages and spillovers. This could thus both increase investment flows and support the development impact of these flows. The World Economic Forum is helping to create a policy-maker and business community to support the growth of sustainable SEZs, which could potentially be employed.[25]

3.5.4 Use clusters to distribute sustainable investment practices

Consider encouraging larger firms to carry out sustainable investment in micro, small and medium-sized enterprise (MSME) clusters, thereby both anchoring the cluster and imparting sustainable ways of doing business to MSMEs. Clusters have been widely used in India for MSME development.[26] They have the ability to increase the productivity, capacity, growth and sustainability of firms in the cluster.

3.5.5 Use international programmes for private-sector capacity-building

Consider using international programmes for private-sector capacity-building. For example, Verband Deutscher Maschinen und Anlagenbau (VDMA), the German Engineering Federation, has a programme in which experts spend time with an Indian company to review their manufacturing approach, make recommendations for improvement and build technical expertise.

> **Supplier development is key to our business from a quality, cost and delivery perspective; hence we significantly invest in suppliers.**
>
> Project interview

Below: Getty Images

4 Potential OFDI policies and measures

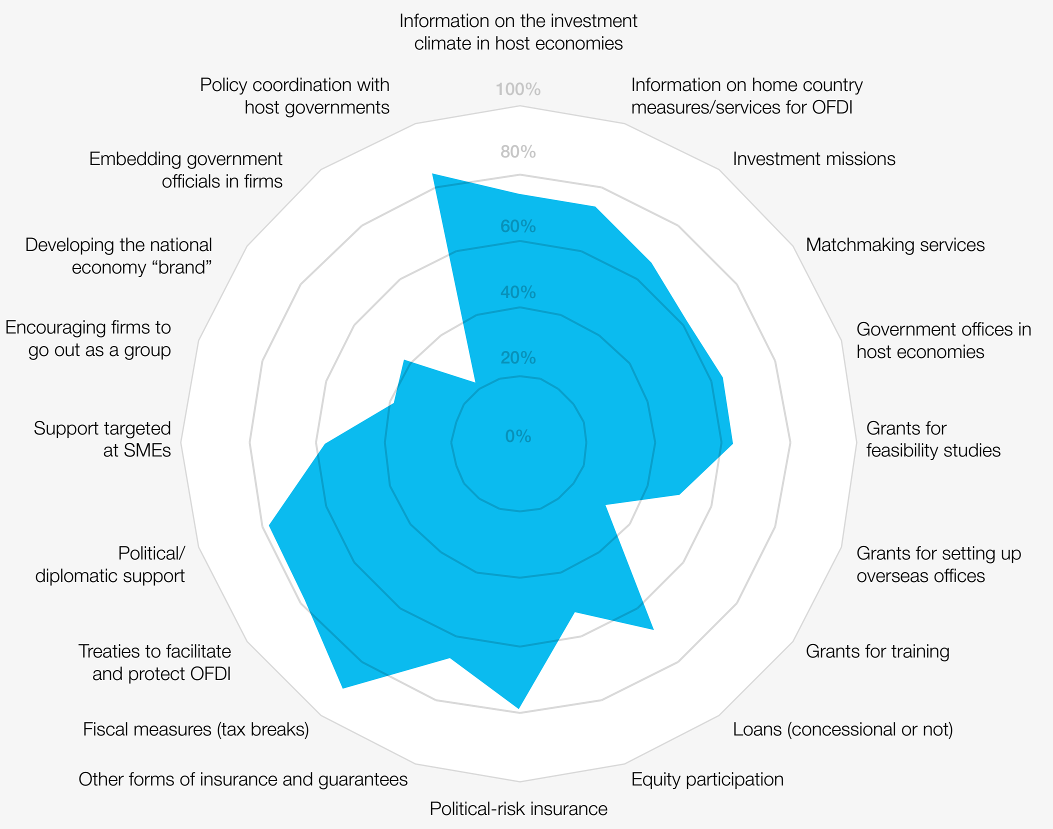
India may wish to consider six potential policies and measures, across the five dimensions of sustainable investment, to leverage OFDI for development and competitiveness.

> **When we wanted to expand to Sri Lanka, we had to do all the groundwork on our own related to figuring out regularities, feasibilities, licences, etc. There was no help available from any kind of authorities whatsoever.**
>
> Project interview

OFDI offers a mechanism for Indian domestic companies or foreign affiliates to expand their operations in other economies. It has the potential to benefit not only the recipient economies but also Indian domestic firms and the Indian economy in general; this includes foreign investors using India as a base to integrate into regional and global value chains. Domestic firms can access global markets, integrate into global value chains, access new technologies and resources and so increase their competitiveness. The evidence shows that this can increase innovation in the Indian economy through firms learning new ways of doing business and increasing their productivity, which in turn directly or indirectly increases innovation and productivity in other Indian firms.[27] There is further evidence that OFDI could potentially lead to growth in exports, high-quality jobs and inflows of foreign exchange from returns on outward investments.[28]

The measures that were identified by stakeholders as most important for supporting OFDI are presented in Figure 12: 89% of the stakeholders/respondents identified fiscal measures (tax breaks) as the most important measure followed by policy coordination with host governments (84%), political-risk insurance (79%), treaties to facilitate and protect OFDI (79%), political/diplomatic support (78%), information on the investment climate in host economies (74%) and information on home-country measures/services for OFDI (74%).

FIGURE 12 **Important policies and measures identified by stakeholders to support OFDI**



4.1 Policy and promotion: align OFDI support with India's development goals

Consider ensuring that OFDI support is focused on supporting India's development goals; for instance, by targeting specific sectors or activities that are priorities for national development.

> **OFDI measures [should be] linked to certain key SDG goals, i.e. climate change, leading to some incentives for the firms. Such goals and incentives need to be defined …**
>
> Project interview

4.2 Finance: provide guidelines and make financial support conditional on responsible OFDI

Consider providing guidelines to Indian firms and making any financial support for OFDI conditional on RBC abroad by Indian firms. The evidence shows that home-country governments increasingly have an important role to play in ensuring that international investment by their firms follows RBC. For instance, South Africa has adopted such guidelines,[29] and the US International Development Finance Corporation made financial support conditional on environmental and social policies and procedures, including using ESIAs.[30]

4.3 Promotion and facilitation: consider an Indian institution to provide home-country measures

Consider whether India wishes to provide home-country measures to support OFDI and, if so, which institution should be responsible for taking them on board. One option could be Invest India; an alternative would be promotion councils. There is some evidence that, when institutions have limited capacity, the OFDI function may be better placed with export promotion agencies rather than inward IPAs. The reason for this is that because IPAs have a mandate to carry out both inward and outward investment promotion, this can result in lower levels of FDI being attracted.[31] However, given that export

promotion in India seems to be diffused across 14 different councils, depending on the particular good or service being exported,[32] this may be a complicating factor in the selection of the best institutional location. In addition, taking into account the high capacity of Invest India as evidenced by its numerous awards and India's record FDI inflows, it may have the institutional capacity to successfully support both inward and outward FDI, although any such decision will have to be based on careful assessment of capacity and resources.

> **Almost all firms go to the Indian embassy in the destination country; very few come to government agencies at home.**
>
> Project interview

4.4 Facilitation: establish partnerships between investment institutions

Consider establishing partnerships between host and home investment institutions to identify sustainable investment opportunities and help to match firms. Facilitating two-way flows of investment becomes increasingly relevant and a win-win option when economies are simultaneously inward and outward investors.[33] For example, a partnership between India and the European Commission identified opportunities for investing in smart grids between 17 Indian and 20 foreign institutions across nine economies.[34]

> **We did much more targeted matchmaking when we went to Japan, almost like speed dating.**
>
> Project interview

> **The biggest challenge we face is landing at the right place and with the right content. Therefore, we propose that a workshop can be organized periodically with a two-fold objective: awareness and acquaintance … awareness … about different mature opportunities … [acquaintance through] interested members being introduced to the relevant counterparts in the host country**
>
> Project interview

4.5 Facilitation: boost the role of Indian embassies and consulates

Consider boosting the role of Indian embassies and consulates to support Indian investors as they scope international opportunities. Indian firms report that they often meet with Indian officials abroad, and that these can be very helpful. There could therefore be a more systematic mechanism or programme; for instance, through encouraging trade and investment officials in embassies and consulates to provide OFDI support. Priority support could be given to firms or investments that make commitments to – or have a track record of – responsible and sustainable operations. The specific support could entail, in the first instance, how to set up and register a business in that jurisdiction.

> **In a study we conducted, we found out that 50% [of] companies go international on their own, 20% seek help from sector associations. Very few approach government or large associations like CII and FICCI.**
>
> Project interview

> **[The] Indian government has given autonomy to Indian embassies to help us. I have gotten responses from the Ambassador.**
>
> Project interview

4.6 Development impact: target support on MSMEs and begin with feasibility studies

Consider targeting home-country measures on Indian MSMEs, given that they are most likely to require such support, and consider subsidizing the cost of feasibility studies for them to undertake OFDI. Feasibility studies are generally not that costly, but they can be an important first step in considering whether an investment is viable; they provide confidence for an Indian MSME to keep exploring the potential foreign investment opportunity. A 50-50 cost-sharing mechanism for feasibility studies between the government and the firm would, for example, still require that firms be seriously interested in the opportunity to pay their share. At the same time, the feasibility study might open the door to OFDI for smaller Indian firms that might not have known they had the capacity to invest internationally, thus growing India's economic competitiveness. An alternative without fiscal cost would be to facilitate a marketplace for feasibility studies that helps connect firms to experts that can provide the service.

> **The feasibility study becomes a very vital aspect in outward investments. Proper guidance on these particular aspects can alleviate apprehension.**
>
> Project interview

FIGURE 13 **Summary of sustainable investment policies and measures of particular importance for OFDI**

Investment policy (and promotion)	Finance mobilization	Investment facilitation (and promotion)	Development impact
Aligning OFDI support to India's development goals	Making financial support conditional on responsible OFDI	Indian institution providing home-country measures	Targeting support on SMEs and starting with feasibility studies
		Partnerships between investment institutions	
		Support from Indian embassies and consulates	

Below: Getty Images

5 Potential policies and measures of importance at state level

India may wish to consider 10 potential policies and measures of particular importance at the state level across the five dimensions of sustainable investment.

Investors reported that because of differences in regulatory approaches between states, investing in India can feel like investing in many smaller markets rather than one large market. This is suboptimal, because one of India's comparative advantages as an investment destination is its large and growing market.

A major exercise in implementing reforms across Indian states and union territories was initiated in December 2014 through the Business Reform Action Plan (BRAP). The initiative was a structured programme executed by the DPIIT under the Ministry of Commerce and Industry in collaboration with the World Bank Group to harness the spirit of competitive and cooperative federalism.

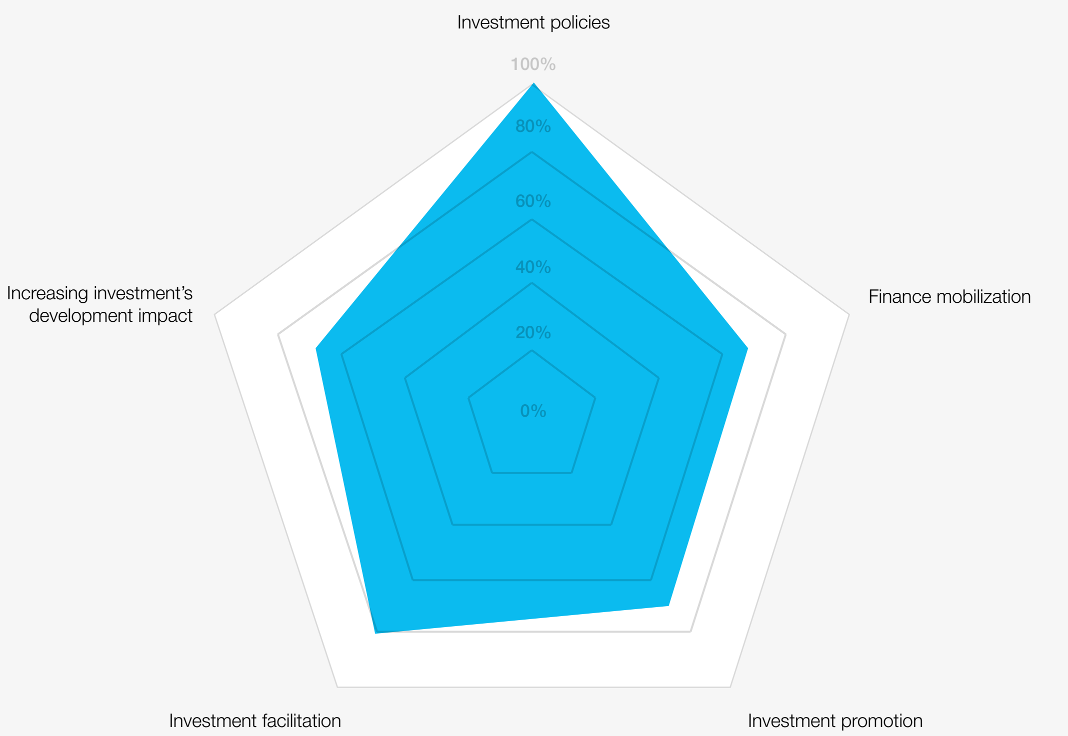
In addition, recent empirical evidence indicates that investment promotion and facilitation may be more important at the subnational than at the national level for increasing investment flows, especially in relatively less developed markets.[35] The reason may be that in those contexts, investors need more support to address ground-level operational issues, and subnational authorities are closer to those issues and can therefore resolve them more readily. In the same way, subnational authorities may have a relatively oversized impact on promoting and facilitating sustainable investment.

Yet interviews with investors reveal they can be reluctant to work with state investment boards, with one reason being the sense that officials change with political cycles. As such, they prefer to work with Invest India's state-level operations. This is not only a missed opportunity to promote and facilitate investment, but can also lead to inconsistencies and operational challenges. At the same time, specific measures could help address these challenges.

Invest India initiated a nationwide project offering strategic advice and guidance for the evolution of Indian state IPAs in 2017, in collaboration with the World Bank Group. The objective was to help create global good practice IPAs at the state level in India in order to have a positive impact on the business environment of the state.

The dimensions that stakeholders identified as important for improved coordination between national and subnational investment authorities are presented in Figure 14: all (100%) of stakeholders identified investment policies as the most important dimension, followed by investment facilitation (80%).

FIGURE 14 **Dimensions of coordination identified by stakeholders as important between national and subnational investment authorities**



5.1 Policy: provide conditional approval or exemptions for investments or expansion

In order to reduce time delays in investments and make the journey easier for investors, the following aspects can be considered:

- **Exemption from certain approvals and inspections for establishment and operations by MSMEs.** Some states have already introduced such exemptions. For instance, Gujarat and Rajasthan have MSME Facilitation Acts that issue an acknowledgment certificate for three years, during which no approval is required; after this period, the MSME can obtain any necessary approvals. Importantly, these Acts override other Acts. Other states may also wish to consider such legislation.

- **Simplification of regulations and reduction of procedural requirements for investments of a certain size or for a certain amount of time.** Maharashtra has recently announced the Maha Parwana Plan, under which companies investing $6.8 million or more would not be burdened with getting clearances from several departments and would be given an assurance letter (a "Maha Parwana"). Companies would need to apply at the Maharashtra Industry, Trade and Investment Facilitation Cell (MAITRI), a single-window system, and if there were no lacunae in the application, an online permission would be provided within 48 hours. Similarly, Karnataka recently amended the Karnataka Industries (Facilitation) Act – investors can now begin operations without having to wait for any statutory clearances for the first three years. Other states may consider bringing in similar modifications to their legislation.

- **Introduction of deemed approval ("silent yes") by state governments.** States may introduce a provision through which an application for clearance is deemed to have been approved if it is not processed within a specified timeframe by the approving authority. However, the investor will be bound to comply with all applicable conditions, rules and regulations. States such as Telangana, Andhra Pradesh, Assam and Karnataka have introduced such measures, and other states may consider doing the same.

- **Consideration given to allowing investors currently operating in one state to expand into another state, but with this approval being conditional on future administrative and regulatory checks, if needed.** There is a precedent in adopting such a measure in trade facilitation, whereby goods are released conditionally in order to prevent their being held up at the border but with the option for *ex post* administrative requirements. Investors report that getting state-level approvals can be time-consuming, and that if they wish to expand to another state, they need to start the process all over again, making them much less enthusiastic about such expansion, which is a loss to the Indian economy. One solution could be for any investor that has already received approvals from one state to be able to automatically expand to another state, but with the caveat that the second state could review and require additional administrative steps at a later date. Even if additional administrative steps were required later, the time gained in not waiting for these steps *ex ante* but rather carrying them out *ex post* would be beneficial to both state economies and firms.

> **Delays are enemies of business.**
>
> Project interview

> **The process time to get to be eligible to work with the state government is very high. Everyone we talked to in the state government wanted to do their own due diligence; so instead of four months, it took two years to get approved. Because of these delays, we are not that enthusiastic to reach out to more state governments. And if we want to apply to work with other state governments, we have to go through the same process, which lasts for one to two years.**
>
> Project interview

5.2 Policy: consider mutual recognition between states of certifications

Consider mutual recognition of certifications between states. This measure is closely connected to the policy in section 5.1 immediately above, but it can also stand alone: the idea is that a certification granted to a firm in one state would be valid in another. This would be of significant benefit in increasing investment into India as firms would not have to apply for multiple certifications for the same thing. The certifications that are most conducive or connected to increasing sustainable investment can be those initially considered for mutual recognition, so that sustainable investment gets a boost through it being made easier to expand these investments across India. As in the prior measure, state authorities could provide for mutual recognition, but then retain the option for further administrative or regulatory review if deemed necessary. This might assuage any concern about losing authority over processes, while at the same time giving a boost to the development of sustainable investment flows.

5.3 Policy: adopt a mechanism to address investment inconsistencies between central and state authorities

Consider adopting a mechanism to coordinate and troubleshoot investment policy inconsistencies between central and state authorities, which could help address some of the challenges identified by investors. Mechanisms for resolving issues between authorities and investors are widely accepted as helping to improve the investment climate. The same logic can be used to develop a mechanism for resolving issues in the implementation of investment policies between national and subnational authorities. This mechanism can also be used for state governments to provide feedback and suggest refinements to national policies (what is termed “policy advocacy”), resulting in improved support for investors. Recent mechanisms such as the PDC and EGoS, which were announced while the project was under way, could be the solution.

5.4 Policy: adopt common minimum environmental, health and safety standards

Consider adopting common minimum environmental, health and safety standards to improve consistency between state regulations. Investors report that one of the key challenges to investment is inconsistency among regulations in different states. At the same time, it is understandable that state authorities will want to maintain discretion over the regulatory framework in their jurisdiction. One solution is to explore whether there could be some common minimum standards, perhaps based on international standards, that states agree to follow as a baseline while at the same time retaining the ability to adopt a higher standard if deemed necessary. Examples of regulations that could be harmonized in this way relate to fire safety, height restrictions or occupancy certificates, among others.

5.5 Policy: ensure alignment in implementation of national policies at the state level

Consider supporting alignment in the way national policies are implemented at the state level. Investors cited inconsistency among policies and regulations in different Indian states as a key challenge. In some cases, this is unavoidable because the issue is on the state list of powers and functions as per the Constitution of India, and is thus the prerogative of the state to determine. This is the case for tourism, leading to some states welcoming investment in large hotels while others limit investment to smaller, boutique hotels. However, other challenges relate to inconsistency in the implementation of national policies and programmes at the state level. One solution could be to consider recommendations by industry groups that operate across states in aligning such implementation.

5.6 Policy: apply competitive federalism to sustainable investment

Consider including sustainability reforms or elements in the BRAP. Ranking of states based on implementation of the BRAP began in 2015 and has spurred state-level reforms as they compete to outdo one another through a dynamic of competitive federalism.[36] The State Reform Action Plan for the year 2020–2021 consists of 301 reform points spread across 15 areas.[37] To these could be added reform points that focus particularly on promoting sustainability. States would thus be ranked on the number of sustainable investment reforms carried out. This could be quite attractive in terms of sustainable investment promotion as the pool of ESG funds grows, and in terms of domestic recognition by politicians, firms and civil society as awareness of sustainable investment increases. The exact sustainability reforms to be added could be drawn from the list of measures identified in this report.

> **Consider ranking of subnational authorities on the amount of lending, development impact and incentives linked to this ranking.**
>
> Project interview

5.7 Facilitation: identify priority sectors at the state level

Consider clearly identifying priority sectors for investment not only at the national level but also at the state level. For example, Telangana has identified aerospace and Tripura has identified bamboo as focus sectors. In each case, state authorities provide strong support to firms investing in the sector; for instance, through helping to secure approvals from relevant state authorities in record time. The selection – and subsequent facilitation – of sectors can be done in a way that on the one hand aligns with the national development strategy and sector selection, and on the other hand aligns with the state's developmental context and strategy. As such, this can increase the developmental benefits from investment flows.

> **Telangana state government is very cooperative and encourages private players in aerospace.**
>
> Project interview

5.8 Facilitation: design industry clusters and local linkages at the state level

Consider supporting the creation of industry clusters in rural areas, anchoring the cluster with a training or research institute and promoting linkages with the local economy. State authorities may be well placed to facilitate investment through measures that are necessarily local in nature, requiring proximity to investors and understanding of the local community. For instance, helping the development of clusters, providing training programmes and supporting local linkages all require an understanding of local conditions, so state officials may be in a better position compared to national officials. Investors report that creating industry clusters in rural areas is good for both the firm and development. It is good for the firm because it is more likely that multiple family members work for the firm – since there are fewer other options in the area – and this leads to greater attachment to the firm, sometimes across multiple generations, providing a reliable workforce. At the same time, this provides jobs and training in rural areas, a key developmental goal of most states. One example of a local institute anchoring an industrial cluster is the Central Food Technological Research Institute (CFTRI).

5.9 Facilitation: design industrial areas/SEZs at the state level with a focus on development

Consider working with state officials on designing industrial areas/SEZs that are oriented to attracting sustainable investment and driving sustainable development (see section 3.5.3). Being by definition local in nature, the design and development of industrial areas/SEZs can be supported by state officials in concert with national officials. Industrial areas/SEZs can be oriented to support sustainable investment; for instance, by welcoming firms that follow high ESG standards. Rather than focusing only on export promotion, these industrial areas/SEZs can also focus instead on the development of specific sectors or capacities identified as priorities in the state development strategy, thereby increasing the development contribution of these zones.

> **Zones need to be created where you get incentives to undertake sustainable investment and then zones where you will be penalized if the investment is not sustainable.**
>
> Project interview

5.10 Promotion: design marketing and communication campaigns at the state level

Consider designing marketing and communication campaigns in support of sustainable investment at the state as well as the national level. While campaigns such as "Incredible India" and "Make in India" serve to enhance the image – and thus investor interest – of the country overall, investors and consumers also need to understand the merits of specific locations for potential investments. For example, Madhya Pradesh's use of digital marketing to promote tourism through the "Sab Kuch Jo Dil Chahe" campaign has proven effective, and this approach could be replicated.[38] Priority should be given to marketing campaigns that promote activities providing a high contribution to sustainable development.

FIGURE 15 **Summary of sustainable investment policies and measures of particular importance to state governments**

Investment policy	Investment facilitation	Investment promotion
Conditional approval for investor expansion to a new state, with possibility of ex post review	Priority sectors identified at the state level	Marketing and communication campaigns designed at the state level
Mutual recognition between states of certifications, with a focus on those important to sustainability	Industry clusters and local linkages designed at the state level	
Mechanism to coordinate and troubleshoot central-state investment policy	SEZs designed at the state level with a focus on development	
Common minimum environmental, health and safety standards		
Alignment in implementation of national policies at the state level		
Competitive federalism applied to sustainable investment		

Below: Getty Images

6 Potential policies and measures specific to agriculture/agribusiness

India may wish to consider 16 policies and measures directly related to agriculture/agribusiness across the five dimensions of sustainable investment.

Agriculture and agribusiness provide a livelihood for more than half of the Indian population, as well as 14% of India's gross domestic product (GDP). Agricultural exports grew at an annualized rate of 6.31% between 2016 and 2019 to reach $38.54 billion. At present, FDI of up to 100% is allowed through the automatic route for the following agricultural activities:

– Floriculture, horticulture, apiculture and cultivation of vegetables and mushrooms under controlled conditions

– Development and production of seeds and planting material

– Animal husbandry, fish farming and aquaculture under controlled conditions

– Services related to agriculture and its allied sectors

In addition, FDI of up to 100% is allowed under the government route (i.e. requiring approval) in the tea sector, including tea plantations.

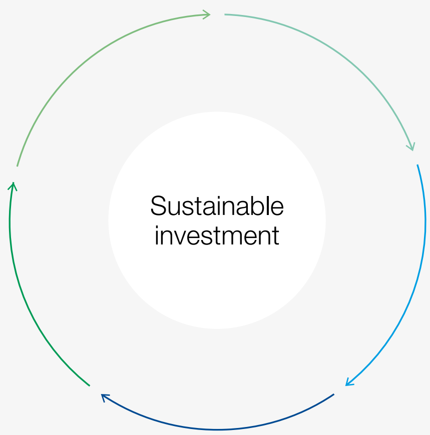
India has recently adopted reforms in agriculture and agribusiness that can serve as a catalyst for attracting investment. For example, previously farmers had to sell their produce through government Agricultural Produce Marketing Committee (APMC) markets, whereas now they can sell directly to domestic corporate or individual buyers. The central government used powers under the constitution with respect to the free flow of trade and commerce, including interstate trade, allowing traders to buy directly from farmers without the intervention of intermediaries.

Overall, the project identified 16 potential policies and measures directly related to agriculture and agribusiness across the five dimensions of sustainable investment (see Figure 16).

FIGURE 16 **Sustainable investment policies and measures directly related to agriculture and agribusiness**

Policies
1. Agricultural guidelines
2. Implementation of recent reforms
3. Mutual recognition of agricultural certificates

Finance
1. Improved collateral
2. Crop insurance
3. Credit guarantees



Impact
1. Business partnership and training with FPOs
2. Productivity-based business models
3. Agri-PPPs and public-private dialogue mechanisms

Promotion
1. Aligning incentives
2. Organic farming
3. Technology adoption
4. Agricultural circular economy
5. Clusters

Facilitation
1. Support with achieving standards and certifications
2. Certification labs in India

Possible priority element in each dimension, for discussion

Policies	Finance	Promotion	Facilitation	Impact
Adopt agriculture-specific principles and guidelines	Improve collateral by accepting warehouse receipts	Promote investment in technology adoption in agriculture	Support the achievement of standards and certifications	Support business partnership and training with FPOs

6.1 Sustainable investment policy

6.1.1 Adopt agriculture-specific principles and guidelines

Consider integrating principles and guidelines for responsible investment in agriculture into domestic regulation, such as those elaborated by the Association of South-East Asian Nations (ASEAN), the Food and Agriculture Organization (FAO), UNCTAD-World Bank and OECD-FAO.[39] By integrating such principles and guidelines, India would promote responsible and sustainable investment in agriculture and the agro-industry – which can in turn contribute to the realization of the SDGs.

6.1.2 Ensure implementation of recent reforms

Consider taking steps to ensure that recent reforms do not accidentally penalize FDI partnerships. Some domestic Indian firms in the agricultural sector reported that they were not able to purchase directly from farmers – as intended by recent reforms – because they had a foreign partner as part of their operations. This is worrying and may warrant further checking to determine whether this is a special case or a more generalized issue.

6.1.3 Support mutual recognition of agricultural certificates

Consider mutual recognition of agricultural certificates to avoid repeating tests across different states (see section 5.2). To illustrate this, one firm reported that although it had received research validation from the Indian Council of Agricultural Research (ICAR) and from third parties, various state governments would not accept these validations when the firm applied for projects. As a result, the firm had to seek validation in each state, which increased the time and cost and served as an investment deterrent. In addition, India could seek to increase the recognition of Indian agricultural products' geographical indication. While Basmati rice and Assam tea have such recognition, many other products do not. Such certification is likely to get better prices for the products, increasing investment interest, while also increasing the chances of compliance with sustainability standards.

6.2 Sustainable finance mobilization

6.2.1 Improve collateral through accepting warehouse receipts

Consider using warehouse receipts for agricultural goods as a form of collateral. Stakeholders in the agricultural sector report that access to finance could be increased through this measure, which is particularly relevant to the agricultural sector given the challenges of cash flow between harvest cycles. It would free up cash that could then be used for further investments and operations.

6.2.2 Ensure that crop insurance and data are available across agricultural activities

Consider ensuring that crop insurance and other forms of insurance are available across the spectrum of activities. Stakeholders report that crop insurers are reluctant to work with non-traditional crops on which they do not have data, thus hampering investment in those crops because the risk is greater. One example is aquaculture, which has great potential in certain states but is an area in which farmers lack access to insurance. In addition, the government could invest (or encourage the private sector to provide) systems to ensure the availability of reliable and updated data on traditional as well as non-traditional crops, thereby increasing investment in agricultural activities.

“ **Insurance is the key.**

Project interview

6.2.3 Develop a credit guarantee scheme between firms and farmers

Consider developing a credit guarantee scheme between firms and farmers. One stakeholder described plans of a for-profit scheme whereby the firm would guarantee a credit to a farmer and if the farmer defaulted, the firm would pay the loan. This service can be a win-win in that it increases access to finance for farmers and thus boosts agricultural production – which is what the firm is seeking – while being provided on a for-profit basis and so also increasing revenue for the firm. Engagement with farmer producer organizations (FPOs) and farmer cooperatives will be key in facilitating this dialogue.

6.3 Sustainable investment promotion

6.3.1 Align incentives with sustainable behaviour

Consider providing incentives for sustainable practices in the agricultural sector. For instance, it may be possible to create incentives to encourage efficient use of resources by benchmarking current use and offering a credit if the use is reduced. One programme has been successfully rolled out for electricity consumption in Punjab. Stakeholders report that initially electricity was provided free to farmers in the state; however, this led to excess electricity consumption and wastage in the powering of water pumps, which also lowered the water table. To tackle this issue, the state government introduced electricity meters to measure power consumption by water pumps and provided incentives for farmers to use less power by giving them credits.

6.3.2 Promote investment in organic farming

Consider targeting the promotion of investment in organic farming. Organic farming holds great potential in India and provides direct development benefits for the country. According to a recent report, India may be home to 30% of the world's organic farmers, but it accounts for less than 1% of the global organic market.[40] There is therefore significant potential to expand India's organic agricultural exports. In addition to promoting foreign investment in this area, the government may also consider additional support measures, such as research on export markets, advisory services for entering foreign markets and support for participation in trade shows. Promoting investment in better segregating the organic market could additionally provide incentives for farmers to go organic, as it is currently difficult to find bulk organic buyers.[41] Stakeholders also report that farmers receive subsidized fertilizers for conventional farming but no subsidy for organic farming, placing them at a relative disadvantage. Yet stakeholders report significant benefits for India in shifting to organic production, ranging from soil health to farmer health.

> **Since we do organic, we have seen substantial improvement in the health of the workers. We have also been able to accrue lots of carbon credits. I don't think there is any other way than to do it sustainably, otherwise the soil will be damaged.**
>
> Project interview

> **Public extension systems, buying support and certification are key for the growth and success of organic farming.**
>
> Project interview

6.3.3 Promote investment in technology adoption in agriculture

Consider targeting investment in technology solutions for agriculture, which are key to increasing the productivity and competitiveness of the sector (also see section 3.1.3). Examples of technology solutions in agriculture – known as precision, or smart, farming – include the use of drones to monitor crop developments or providing apps to farmers with information on pest outbreaks, seed prices or micro weather forecasts. This could help reduce wasted inputs and outputs (stakeholders report that significant amounts of produce are currently lost), increasing both investment interest and the sustainability of the agricultural sector.

> **Adoption of technology solutions in agriculture, or smart farming, led to a 60% increase in productivity and a 20% reduction in cost.**
>
> Project interview

6.3.4 Promote investment in the agricultural circular economy

Consider promoting investment in agriculture that supports the circular economy (also see section 3.1.3). For example, the poultry industry uses biowaste for feed, including the remains left after soya and sunflower oil extraction, which are turned into waste-cakes. Another example is the bamboo industry, where all parts can be used, whether for furniture materials, incense sticks or biofuels.

6.3.5 Promote investment in agricultural and agribusiness clusters

Consider promoting investment in clusters of agricultural activities, whereby a specific commodity anchors investment in agro-processing value addition (also see section 3.5.4). For example, Nagpur in Maharashtra is well known for oranges (it is called the "Orange City"), and so in and around Nagpur, orange-processing industries can be promoted for investment. Such a cluster approach helps in the development of value chains and value addition, increasing the development benefits to farmers and communities. Another similar approach is to use clusters to organize smallholder farmers producing in one geographical area. This allows services to be aggregated and provided at a lower cost, while also increasing farmers' competitiveness by boosting their combined buying and selling power.

> **You can bring together 10 clusters with 100 farmers each that collectively have 2,000 poultry birds and they can compete effectively. It's like a network of people that take care of each other.**
>
> Project interview

6.4 Sustainable investment facilitation

6.4.1 Support the achievement of standards and certifications

Consider encouraging and supporting the widespread adoption of both quality and process standards in the agricultural sector. These are vital for attracting sustainable investment, as well as for exporting to foreign markets. Since achieving such global standards may be costly for domestic firms, the government may wish to consider support in terms of the fees related to approvals by the US Food and Drug Administration (USFDA). For instance, the fees could initially be (fully or partially) covered by the Indian government, to be paid back by the firm through revenue generated from growing exports following the certification. See section 3.3.2 for a similar measure related to the government subsidizing sustainable investment advisory services.

> **We are fair trade-certified and are majority-owned by Swiss and Dutch investors, but we do have challenges in maintaining the certifications.**
>
> Project interview

6.4.2 Encourage certification labs in India

Consider setting up certification labs in India to certify agriculture and marine exports before they are shipped to foreign markets. This will help prevent the risk of consignments being rejected at the port of entry. For instance, the European Union (EU) provides sanitary testing in Ecuador for goods intended for the EU, and something similar could be considered for key export markets, de-risking the business and thus potentially increasing investor interest. The presence of such labs in India could also help with technology transfer and skills-building, further increasing the sustainable benefit for the Indian economy.

6.5 Development impact

6.5.1 Support business partnership and training with FPOs

Consider supporting business partnerships with FPOs to boost business orientation and training. FPOs are the main institutional mechanism around which farmers can mobilize and build capacity to collectively draw on their production and marketing strengths. Yet investors report that FPOs could strengthen their business orientation. One way could be through business-FPO dialogues, partnerships and training for members. The specific areas for potential cooperation and training include human resources, procurement and storage practices, among others. One option is for a firm to pick a specific area and the FPO to provide capacity-building and support.

6.5.2 Adopt productivity-based business models

Consider adopting profit-sharing business models where relevant in the agricultural sector. Stakeholders report that such business models can be highly effective in increasing productivity and thus potentially improving business interests. For instance, in some tea plantations, profit-sharing allows employees to earn as much as 25–50% on top of their earnings depending on their level of productivity. This brings in additional revenue for both employees and the plantation owners. At the same time, it is important for such schemes to be complemented by labour standards and worker protection to ensure they do not create harmful incentives.

> **We had a challenge of losing workers to other industries, mostly in services. But since we introduced this productivity-based income augmentation model – not any more.**
>
> Project interview

6.5.3 Encourage agri-PPPs and public-private dialogue mechanisms

Consider supporting agriculture-focused public-private partnerships (agri-PPPs) and mechanisms for dialogue with the private sector on agricultural reforms. On the one hand, agri-PPPs can direct private-sector resources towards public developmental goals; on the other hand, dialogue mechanisms can allow particular industry issues to be articulated and addressed. Agri-PPPs and dialogue mechanisms can be designed so that they focus first or predominantly on issues that will directly boost the sustainable development impact of agricultural investment in India. One example is in the area of waste management, where an agri-PPP could allow the effluent to be collected from multiple sites and then disposed of in an environmentally sustainable manner, with firms being charged for the service, just as they pay for utility services (water or electricity). In this case the government can create the framework for multiple firms to participate, benefiting the firms' operations and also India's environment.

> **Public-private partnerships and encouraging local innovations, which India has already started in spirit, can help bring about a vast change in promoting agribusiness in India.**
>
> Project interview

> **Understanding farmers' problems is the starting point for us while we try to develop a framework for the short, mid and long term with private players.**
>
> Project interview

Appendix 1: World Economic Forum Sustainable Investment Framework

The World Economic Forum's Sustainable Investment Framework suggests that sustainable investment can be understood through five mutually supportive and integrated dimensions. It has been put forward as a harmonizing tool to help align and coordinate sustainable investment activities by different bodies.[42]

Sustainable investment policies are key to creating the underlying framework for investment to take place in alignment with environmental, social, economic and governance principles. Concretely, these can include human and labour rights, health and safety standards, and social and environmental protections. Tools used in this area include ESIAs.

Sustainable finance mobilization entails the framework increasing the flow of capital and especially the flow of capital to sustainable activities. This requires stakeholders to have information regarding the sustainability behaviour of different firms so that policy-makers, regulators, investors, media and civil society can reward sustainable behaviour and condemn unsustainable behaviour, helping to align market mechanisms with development goals. An example of a tool used in this area is environmental and social reporting by firms or reporting requirements to be listed on stock exchanges.

Sustainable investment promotion can drive sustainable investment through: (a) targeting investors in sectors that are particularly conducive to the SDGs; (b) targeting investors with a sustainability mission; and (c) creating a pipeline of sustainable bankable projects. An example of a tool used in this area would be making investment incentives conditional on the sustainability behaviour of firms.

Sustainable investment facilitation can drive sustainable investment by providing greater facilitation services and support to investment that is aligned with the development goals of the economy. Tools used in this area include guarantees or insurance to support and protect sustainable investment.

Sustainable development impact involves measures to maximize the positive development impact – and minimize any potential negative impacts – from investment. This can take place through increasing absorptive capacity, indicators to monitor and measure impact, and stakeholder engagement. Tools used in this area include supplier development programmes and efforts to create linkages between foreign and domestic firms.

More detailed information is presented in the table below.

TABLE 3 | **Title of major table goes here, , try to keep less than 85 characters in length**

Dimension	Elements	Tools	Actors	Explanation
Sustainable investment policies	International law, national law, international process standards, national process standards, industry process standards	IIAs, OECD guidelines, firm-level CSR guidelines, domestic labour codes, ESIAs, supply-chain guidelines for mining or for agriculture	Policies can apply to both host governments and home governments, as well as host firms and home firms	Sustainable investment requires investment to take place in the context of respect for human rights, health and safety standards, social and environmental protection, and respect for core labour rights; policies can encompass both "carrots" and "sticks"
Sustainable finance mobilization	Corporate sustainability ratings, financial standards, corporate sustainability reporting	Sustainability Accounting Standards (SASB), Global Reporting Initiative (GRI), Sustainable Stock Exchange (SSE) initiative	Sustainable finance mobilization is mainly targeted at firms, such as portfolio investors, institutional investors, impact investors, sustainable investors, etc.	Sustainable investment requires stakeholders to have information regarding the sustainability behaviour of different firms, so that policy-makers, regulators, investors, media and civil society can reward or punish investment behaviour through incentives and sanctions, providing market signals to better align market mechanisms with SDG goals
Sustainable investment promotion	National strategy for attracting investment, targeted promotion on SDG sectors, targeted promotion on sustainable investors	RSI measure, behavioural incentives, home-country measures conditional on sustainability performance, pipeline of bankable projects, promotion campaigns, roadshows, investment conferences	Host economy IPA, home economy IPA, other policy-makers, host-economy firms, home-economy firms	Sustainable investment can be furthered through: (a) targeting investors in sectors that are particularly conducive to the SDGs; (b) targeting investors with a sustainability mission; and (c) creating a pipeline of sustainable bankable projects
Sustainable investment facilitation	Administrative procedures and requirements, transparency, aftercare, quality standards, insurance, etc.	Focal point, one-stop shop, ombudsperson, lists of domestic suppliers, guarantees and insurance targeted at supporting and protecting sustainable investment	Host-economy IPA, home-economy IPA, other policy-makers, insurance providers, host-economy firms, home-economy firms	Sustainable investment can be furthered through providing greater facilitation services and support to investment that is aligned with SDGs of the economy; this can be facilitated by partnership between home and host IPAs, as well as regional cooperation
Sustainable development impact	Business linkages, training, technology transfer, indicators, stakeholder engagement	PPPs, supplier-development programme to create linkages, SEZs focused on SDGs, OECD FDI quality indicators, UNESCAP FDI indicators, firm reporting on ESG impact, public-private dialogues	Host-economy IPA, home-economy IPA, other policy-makers, insurance providers, host-economy firms, home-economy firms Host-economy IPA, home-economy IPA, other policy-makers, insurance providers, host-economy firms, home-economy firms	Sustainable investment also involves programmes and initiatives to maximize positive development impact and minimize potential negative impacts. This can take place through increasing the absorptive capacity in economies, tools to measure sustainable impact, stakeholder engagement, public scrutiny and pressure, and making trade-offs

Appendix 2: Glossary

AEO	authorized economic operator
APMC	Agricultural Produce Marketing Committee
ASEAN	Association of South-East Asian Nations
ATF	aviation turbine fuel
BITS	Birla Institute of Technology and Science
BRAP	Business Reform Action Plan
CFR	country financing roadmaps
CII	Confederation of Indian Industry
COVID-19	coronavirus disease-19
CSR	corporate social responsibility
CUTS	Consumer Unity and Trust Society International
DPIIT	Department for Promotion of Industry and Internal Trade
EDB	ease of doing business
EGoS	Empowered Group of Secretaries
ESG	environmental, social and corporate governance
ESIA	environmental and social impact assessment
EU	European Union
FDI	foreign direct investment
FPO	farmer producer organization
GDP	gross domestic product
GOI	Government of India
GRI	Global Reporting Initiative
GST	goods and services tax
IBEF	India Brand Equity Foundation
ICAR	Indian Council of Agricultural Research
IDC	industrial development corporation
IoT	internet of things
IPAs	investment promotion agencies
JICA	Japan International Cooperation Agency
KPI	key performance indicator
LED	light-emitting diode

MIGA	Multilateral Investment Guarantee Agency
MPIDC	Madhya Pradesh Industrial Development Corporation
MSME	micro, small and medium-sized enterprise
NGO	non-governmental organization
OECD	Organisation for Economic Co-operation and Development
OFDI	outward foreign direct investment
PDC	project development cell
PLI	production-linked incentive
PPA	power purchase agreements
PPP	public-private partnership
R&D	research and development
RBC	responsible business conduct
RSI	recognized sustainable investor
SAF	sustainable aviation fuel
SASB	Sustainability Accounting Standards Board
SDG	sustainable development goal
SDIP	Sustainable Development Investment Partnership
SEZ	special economic zone
SME	small and medium-sized enterprise
SSE	Sustainable Stock Exchange
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
USFDA	United States Food and Drug Administration
VDMA	Verband Deutscher Maschinen und Anlagenbau (Association of German Mechanical and Plant Engineering)
VIIT	Vishwakarma Institute of Information Technology
WBG	World Bank Group
WHO	World Health Organization
WIR	World Investment Report
WTO	World Trade Organization

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Endnotes

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