

## **TERMS OF REFERENCE FOR THE R&D PROJECT**

**1.0 TITLE:** Development of impact assessment framework/matrix aimed at evaluating the effectiveness of sustainable finance activities concerning ESG and SDG factors.

### **2.0 BACKGROUND:**

**2.1** The financial sector holds enormous power in funding and bringing awareness to issues of sustainability, whether by allowing for research and development of alternative energy sources or supporting businesses that follow fair and sustainable labour practices. Sustainable finance is defined as investment decisions that take into account the environmental, social, and governance (ESG) factors of an economic activity or project.

**2.2** Environmental factors include mitigation of the climate crisis or use of sustainable resources. Social factors include human and animal rights, as well as consumer protection and diverse hiring practices. Governance factors refer to the management, employee relations, and compensation practices of both public and private organizations.

**2.3** An innovative sustainable financial system is required to tackle the risks of climate change, poverty, and inequality. Therefore, the sustainability considerations include environmental, social, and governance practices to be integrated into financing social and economic activities. However, despite many competing reporting standards, the sustainable finance market needs to be more institutionalized, needing a common understanding of practices, principles, and consolidated financial or impact performance data sets.

**2.4** New standards are required to define and guide certain sustainable financing activities. With evolving regulations worldwide and in India, a comprehensive study needs to be conducted to understand the relationship between sustainable financing activities and their relative impact on ESG Considerations and SDGs. The study's primary objective is to develop a framework for analysing the relationship between sustainable financing practices, their ESG dimensions, and SDGs. The outcome of the research project can lead to the development of new standards for measuring the effectiveness of Sustainable Financing activities with respect to ESG and SDGs considerations

**2.5** The market for sustainable finance can be divided into two subcategories: (a) exclusionary sustainable finance, and (b). integrated sustainable finance. Exclusionary sustainable finance is typically risk-screened against various non-financial performance metrics across ESG categories. This leads to a recalibration of the long-term risk profiles of high-carbon-intensity companies. Integrated sustainable finance typically aims to achieve a 'Double Delta' impact by providing new, additional capital and focussing on high-potential start-ups or high-growth potential. Integrated sustainable finance is often aligned with contributing more to one or more of the 17 UN SDGs and is also called Socially Responsible Investment.

**2.6** Several frameworks have been developed to (a) mobilize finance for sustainable development, e.g., International Capital Market Association (ICMA) (2018) Sustainable Bond Guidelines, (b) utilize finance, e.g., Principles for Responsible Investment, Principles for Responsible Banking (2020) (c) evaluate project's environmental and social risks, e.g., International Finance Corporation's performance standards (2012), and (d) report on the use of proceeds, e.g., Global Reporting Initiative (2018), and IFRS -ISSB in 2023. However, one significant gap for investors, lenders, and governments interested in increasing sustainable investment is the lack of a unified taxonomy of activities for sustainable finance that incorporates all 17 sustainable development goals (SDGs). In other words, investors, lenders, and project developers lack a clearly defined framework on what specific projects contribute to the SDGs and what type can be financed.

**2.7** Upon Completion of study, the study report shall be incorporated for the development of a new Indian standard.

### **3.0 OBJECTIVE:**

**3.1** To evaluate the performance of sustainable finance activities.

**3.2** To understand the impact of sustainable finance projects on ESG and SDGs.

**3.3** To develop a matrix/model to evaluate the effectiveness of sustainable finance projects under green initiatives.

**3.4** The matrix/framework will conclude how effectively the projects under sustainable finance has contributed or will contribute towards meeting intended objective.

### **4.0 SCOPE:**

**4.1** The proposer shall study all literature available in sustainable financing and sustainable finance ratings framework including but not limited to the following:

- a) Indian Standards in the field.
- b) International standards in the field;
- c) Regulation and Guidelines
- d) Literature available related to this field
- e) Research papers in the field;
- f) Guidelines by any ministry/regulatory bodies;
- g) Any studies being conducted by any other organization; and
- h) Best practices in other countries in similar field;
- j) Any other sources;

**4.2** The proposer should identify the stakeholders, beneficiaries and regulators and interact with them. A survey through a structured questionnaire shall be carried out on the following aspects;

- a) How to build a relationship for impact of sustainable financing activities on ESG factors?
- b) How to assess the impact of sustainable financing activities on ESG dimensions?
- c) What is the framework to understand the links between sustainable finance and SDGs?

### **5.0 RESEARCH METHODOLOGY:**

Suggested methodology for the proposed R & D shall be as follows:

**5.1 Literature Review:** Undertake literature review as per applicable clause under “Scope” and prepare report along with questionnaires.

**5.2 Field Visit:** Visits shall be carried out to study in different types of organizations in the form of survey in line with 4.2 above. The proposer shall suggest visit plan along with visit activity. Once the

visit plan and proposed activities suggested by researcher is approved by BIS. The researcher shall conduct those visits and activities as per approved visit planned.

**5.3 Conduct:** visits/survey covering the all over India as per the sampling plan given below:

Type of Organization	Number of Visits	Purpose
Banks	5	Data Collection as per 4.2
Sustainability divisions of Large Corporates	2	Data Collection as per 4.2
ESG Ratings Agency	2	Data Collection as per 4.2

**5.4 Field survey and Data collection:**

- a) The collection of data shall be done to establish the relation between sustainable financing activities with ESG dimensions.
- b) Preparation of Questionnaire for the data collections shall be done in consultations with different stakeholders by means of survey or interviewing.
- c) Identifying the existing similar practices elsewhere and taking reference from there for data collection.
- d) When gathering data, it is advisable to rely on primary data. Nevertheless, the utilization of secondary data and references to existing literature is also encouraged, as long as proper referencing is undertaken.

**5.5 Analysis and report preparation:**

- a) Based on the evaluation reports, establish correlation as described in Scope and submit final analytical report. The Report should contain the methodologies for impact analysis of Sustainable Finance projects.
- b) Focused group discussions after the visits to analyse and comparative analysis of the collected data.
- c) Data collected should be analysed w.r.t ESG performance of projects.

**6.0 DELIVERABLES:**

**6.1** Project report, in hard copy and digital formats, covering all aspects mentioned in scope.

**6.2** Questionnaires, discussion, visit and survey reports shall be appended with the project report.

**6.3** The key deliverables of the project include:

- a) Proposing the requirements for financial institutions engaged in sustainable finance projects to evaluate the Performance of Sustainable Finance Practices.
- b) Developing the metrics for impact analysis of sustainable finance activities, and
- c) The approach paper for developing a new standard for impact analysis of sustainable finance projects as key scope of the standard.

**6.4** A pilot project for the Implementation of framework/matrix to measure the performance of sustainable finance projects. Incorporation of feedback received to further correct the methodologies.

## **7.0 TIMELINE AND METHOD OF PROGRESS REVIEW:**

Estimated Timeline is 4 months from the date of award of the project. The project shall follow the following timeline:

### **Stages for Review:**

**7.1 Stage I:** At the end of first month, project allottee shall prepare brief report identifying the following:

- a) Details of literature review carried out and summarized report;
- b) Identification of different organizations, stakeholders, beneficiaries to be visited;
- c) Details of plan and information to be collected through interactions from the above-mentioned stakeholders and visits to be carried out;

BIS will evaluate and provide the feedback, if any.

**7.2 Stage II:** At the end of 3rd month, project allottee shall submit draft report with the following information:

- a) Reports of visits carried out to different
- b) Details of the data collected while interaction with different stakeholders; and
- c) Analysis of data and correlation with the findings.

BIS will evaluate and provide the feedback/recommend changes, if any.

After 4 months, project allottee shall submit final project report incorporating recommendations/ feedback of BIS

## **8.0 SUPPORT FROM BIS:**

BIS will provide access to latest available editions of Indian standards and/ or international standards relevant to the project, on request.

## **9.0 NODAL OFFICER:**

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