Indian Finance Institutions need to get their act together for clean energy transition

As India launched its first ever auction of sovereign green bonds, a study in the Global Environmental Change journal has exposed the Indian financial institutions’ (FIs) obliviousness on how they should facilitate green transition. Not even half of the 154 finance professionals interviewed were conversant with climate change mitigation and adaptation, greenhouse gas emissions and transition risks. Their ignorance points to deeper institutional indifference to these issues. Huge segments of FIs lending portfolios are exposed to fossil fuel production. Of the 10 FIs surveyed only 4 collected information on environmental, social and governance (ESG) risks, and even then such knowledge was inadequately incorporated in their lending practices. Such reports are timely reminders that India FIs need to institutionalize Environmental and Social Safeguard mechanisms.
Economists have been warning about the oligopolistic path the rulers of the day seem to have taken. The risks it entails for the economy as well as for our democracy is deeply disturbing. The New York based investment research firm Hindenburg Research this week has highlighted the same in a 32,000 word report. It has laid out evidence of brazen accounting fraud, stock manipulation and money laundering at Adani making for probably the “most egregious example of corporate fraud in history”.

The report indicates that offshore shells tied to Adani Group comprise many of the largest “public” holders of Adani stock. This is a clear violation of laws that ought to protect us from insider trading. Adani Group entities also received bans for their connection to the likes of Ketan Parekh, one of India’s most notorious stock market manipulators. But these were soon reduced to fines. Again, regulatory agencies are supposed to keep a close watch on related party loans (i.e., loans given by those having pre-existing business relations) as it can lead to fraud. The report speaks of several such undisclosed related party transactions.

The report says that Adani has pulled these off “with the help of enablers in government”. They believe that “investors, journalists, citizens & even politicians have been afraid to speak out for fear of reprisal.” The report in fact mentions the case against leading investigative journalist Paranjoy Guha Thakurta who had written on the Adanis.
In the wake of the damning Hindenburg Report, multiple news stories are emerging quoting the analysis of capital markets and investment group CLSA claiming that the Indian bank’s exposure to Adani group of companies is less than 40% and has not risen meaningfully in the last couple of years. The breakdown of the Rs. 2 lakh crore debt by the very report says 38% are from the banks (term loans, working capital etc) and 37% are from bonds and Commercial Paper (CP), 11% from financial institutions and 12 to 13% from inter company lending. Even by this break up banks still are the one of the primary sources with about Rs. 70,000 to 80,000 crore exposure! While the means are various, if we take into account the public money being invested into the company directly or indirectly through these various financial tools, the share is well over 40%! The Adani group of companies has been accused by multiple sources in the recent years of being overvalued. The Hindenburg report in fact quotes a former senior RBI official saying, “Any group with such a meteoric ride based on borrowings, acquisitions, and an elevated stock price deserves scrutiny.”

The high exposure of major institutions like LIC and SBI in particular to the Adani Group has alarming implications for people’s hard-earned savings and the country’s economic health. This is yet another instance for the regulators to seriously introspect and tighten due diligence and safeguard policies.
Beyond the hyperboles: GDP projections onwards to the budget

Coming on the heels of a difficult recovery process that seems to be rather K-shaped, troubling unemployment figures, and bracing for a recession as well as the elections, the upcoming budget is crucial. Reportedly the government in the budget is likely to peg the nominal GDP growth rate at about 11%. The nominal GDP while assessing economic production doesn’t adjust for inflation or the rising prices, and hence yield higher figures. It thereby becomes the basis for tax collections. The figure of 11% marks a slowdown from the estimate made for the current fiscal year. This, it seems, is a result of the apprehended dent in external demand owing to the looming recession. Coming after months of denial about the possibility of a recession affecting us, this counts as yet another veiled acknowledgement by the government.

Meanwhile, the World Economic Situation and Prospects 2023 report produced by the UN has stated that India’s GDP is projected to moderate to 5.8% in 2023 as part of a global deceleration owing to “series of severe and mutually reinforcing shocks” including the pandemic, the war in Ukraine, climate emergency and inflation.