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How ESG Scores Are Quietly Influencing Loan Terms in the UAE & India

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Carbon Collateral: How ESG Scores Are Quietly Influencing Loan Terms in the UAE & India

Executive Summary

Environmental, Social and Governance (ESG) factors are transforming from investor-side signals to concrete financial variables within credit systems, subtly but significantly influencing how loans are priced, structured, and approved. In mature markets such as the United Kingdom and the European Union, this transformation is already well underway. ESG linked financing instruments, regulatory mandates, and lender risk models have established a clear precedent: ESG performance is now inseparable from financial credibility.

In contrast, the shift is only just beginning in emerging markets like India and the UAE. Although these markets have seen early adoption through instruments such as green bonds and Sustainability-Linked Loans (SLLs), traction remains limited, particularly among mid-sized borrowers and domestic lenders. However, a combination of regulatory momentum, institutional experimentation, and evolving investor expectations is laying the groundwork for broader integration.

This whitepaper explores how ESG is becoming a form of carbon collateral - an intangible but financially material factor that is quietly reshaping credit markets. Drawing on case studies, regulatory developments, and global trends, it outlines how ESG considerations are influencing collateral requirements, loan pricing, and access to capital, even in regions where adoption is still nascent.

India and the UAE provide two distinct but revealing examples. India is moving from a voluntary disclosure environment to a structured ESG ratings and reporting regime, with SEBI and the Reserve Bank of India (RBI) shaping the path. Meanwhile, the UAE is advancing ESG integration through national strategy and coordinated regulatory alignment, aiming to build a green finance ecosystem at the regional level.

This whitepaper is designed for CFOs, sustainability managers, institutional lenders, finance regulators, and policy professionals seeking to understand how ESG is entering the mainstream of credit decision-making, and what that means for financial access in both developing and developed markets.

Introduction - The New “Collateral” on the Balance Sheet

Could a company’s carbon footprint impact its next loan?

That question, once hypothetical, is becoming a practical concern for credit officers across Europe, and increasingly, for CFOs in India and the UAE. Today, ESG metrics are not only influencing investor sentiment, but are being actively integrated into loan underwriting models. This trend is most visible in instruments like green bonds and Sustainability-Linked Loans (SLLs), but it is also unfolding behind the scenes within risk scoring frameworks, internal exposure models, and the fine print of loan covenants.



In mature financial ecosystems such as the UK and the EU, this shift is already well established. Financial institutions regularly offer SLLs where margin adjustments are linked to a borrower’s environmental or social performance. For example, in 2024, UPP Group, a UK-based student housing provider, secured a £110 million SLL from Deutsche Bank, with loan costs linked to key ESG targets such as reduced carbon emissions and increased biodiversity across its accommodation portfolio (ESG News, 2024).

Similarly, Frasers Property UK entered a £110 million bilateral SLL with Maybank, where interest rate reductions are tied to maintaining a four-star GRESB sustainability rating for its business parks (Frasers Property, 2022). These examples are no longer edge cases. They reflect a broader shift in how financial institutions assess and reward sustainability performance.

But in emerging markets like India and the UAE, this transition is just beginning. While regulators are pushing ESG disclosure, and some banks have launched pilot products, ESG factors are not yet consistently priced into loan decisions, particularly for mid-market firms. In most cases, ESG remains secondary to conventional credit metrics. Still, the foundations for future integration are clearly being laid.

India, for example, has introduced structured ESG reporting through SEBI's Business Responsibility and Sustainability Report (BRSR) framework, applicable to its top 1000 listed companies (SEBI, 2023). At the same time, the Reserve Bank of India is piloting climate risk disclosure frameworks for financial institutions. These regulatory signals suggest ESG will become a standard input in credit risk models over time.

The UAE has adopted a top-down strategy. The Central Bank of the UAE (CBUAE) issued its Principles for the Effective Management of Climate-Related Financial Risks in 2023, calling on banks to incorporate ESG into governance, risk appetite, and loan underwriting processes (CBUAE, 2023).

What connects both India and the UAE is a growing pressure on mid-sized businesses. These firms often form the operational backbone of their respective economies but are not yet equipped for ESG disclosure or KPI-driven financing. However, they increasingly face ESG-linked expectations from supply chain partners, institutional investors, and now, from lenders too.

This whitepaper examines how ESG is becoming a new layer of creditworthiness. It does not replace traditional financial analysis, but reinforces it. A borrower's emissions footprint, governance structure, and social track record may not yet appear in the balance sheet, but they are starting to affect the pricing and availability of capital. In the following sections, we explore how this shift is unfolding, what it means for businesses and banks, and why the early developments in India and the UAE may reflect what's next for other emerging markets.

ESG Metrics Entering the Financial Mainstream

From Niche to Norm

ESG considerations were once confined to investor reports and CSR documents. Today, they're shaping how banks assess risk, how markets allocate capital, and how regulators expect institutions to behave. What started as a "nice-to-have" has become **a non-negotiable component of credit risk assessment.**

More than 75% of global investors now factor ESG performance into decision-making, and banks are rapidly aligning with that trend. ESG isn't just a filter for equities anymore - it's becoming a financial signal across the **debt and credit landscape** as well.

A Surge in Sustainable Finance

The growth of ESG finance is not incremental. It's exponential. Global ESG-linked loan volumes are expected to hit **$37 trillion by 2025** (Acuity Knowledge Partners, 2025). Sustainability-linked loans (SLLs), green bonds, and ESG-linked supply chain financing are being offered across industries and regions, no longer limited to green tech or Fortune 500 companies.

This isn't about moral alignment. It's about financial reality. In the words of Acuity KP: "Sustainable finance is emerging as a dominant force reshaping the future of finance, with implications for capital markets, credit decisions, and institutional resilience" (Acuity Knowledge Partners, 2025).

Why Lenders Are Paying Attention

There's a clear rationale behind this shift. Companies with strong ESG profiles are seen as **less risky**. Good governance signals better internal controls. Strong environmental management points to fewer liabilities or regulatory penalties. Social responsibility reduces the odds of reputational harm or labour disruption

Credit officers increasingly view ESG as a **proxy for long-term management quality.** In other words, it's not just what you earn - it's how you earn it.

According to research published in ScienceDirect, high ESG performers enjoy **significantly lower bond yield spreads** than their low-ESG peers, reflecting reduced perceived risk (Huang & Li, 2021). Similarly, Acuity KP notes that ESG-compliant firms tend to secure **lower cost of debt** and attract a broader investor base, thanks to growing demand for sustainable portfolios (Acuity Knowledge Partners, 2025).

A Financial Imperative, Not Just an Ethical One

This shift reflects a broader truth: **ESG is now a financial imperative**. Credit decisions are no longer made solely on backward-looking financials. They're increasingly shaped by **forward-looking sustainability indicators,** especially in sectors exposed to regulatory change, climate impact, or governance volatility.

Mid-sized companies, particularly in emerging markets like India and the UAE, can no longer afford to see ESG as a PR exercise. Their ESG performance is becoming **a real input into loan pricing, terms, and approval timelines.**

As the next section will show, this isn't theoretical. It's already happening in the term sheets and internal risk models of major banks, often without borrowers fully realising it.





The Mechanisms - How ESG Influences Loan Pricing and Terms

ESG metrics are no longer abstract ideals. They now directly affect **loan structures, interest rates, collateral requirements, and access to capital,** often without borrowers fully realising it. Here's how:

Loan Pricing - ESG Performance Impacts Interest Margins

One of the clearest mechanisms is through **Sustainability Improvement Loans (SILs).** These facilities explicitly tie interest margins to ESG Key Performance Indicators (KPIs). If a company meets or exceeds targets, such as reducing emissions, improving gender diversity, or achieving a better ESG rating - its interest rate falls. If performance worsens, the margin rises.

This isn't a hypothetical. HSBC has introduced **Sustainability Improvement Loans for mid-sized corporates across the Middle East,** where loan pricing is linked to ESG scores from EcoVadis (HSBC UAE, 2024). In practice, a 10-point improvement in an ESG score can reduce interest margins by 25 - 50 basis points, a meaningful saving over the loan tenure.

These mechanisms effectively reward sustainable behaviour with **cheaper capital,** while subtly penalising underperformance.

Collateral Adjustments – ESG Risk Drives Down Asset Value

Collateral is no longer assessed solely on market value. If a pledged asset is exposed to environmental risk - say, a factory in a flood zone or a plant reliant on high-emission fuels - its lending value may be discounted. Some banks assign **haircuts or require additional guarantees** on such assets.

Assets with potential to become "stranded" - like coal infrastructure or water-intensive industries in drought-prone zones, may even be **excluded from collateral calculations** altogether. ESG risk models increasingly guide these decisions (Acuity KP, 2023).

This means that a poor ESG score can directly increase **collateral demands**, even for otherwise creditworthy borrowers.

Loan Covenants - ESG Targets as Conditions

Banks are now embedding **ESG-linked covenants** in loan agreements. These may include targets on emissions reduction, safety records, board diversity, or disclosure of sustainability metrics. If a borrower fails to meet the agreed benchmarks, it may trigger **margin penalties, restructuring clauses, or even default risks.**

A pioneering case is **DP World's $2 billion refinancing deal in 2018**, where loan pricing was tied to the company's **carbon intensity per container moved**, a precise operational ESG metric (LinkedIn, 2018). Miss the target, pay more.

This trend is growing in sectors like manufacturing, shipping, and infrastructure, where **ESG performance is measurable and material.**

Access to Capital - ESG as a Gatekeeper

ESG metrics now determine **whether capital is available at all**. Global lenders often have ESG exclusion lists, internal screening tools, or net-zero lending targets that filter out firms with high carbon intensity, governance lapses, or labour violations.

In this environment, companies with **strong ESG profiles are not only preferred, they often gain faster approval, better terms, and longer maturities (Acuity KP, 2023).**

As one Middle East banker candidly observed, **"We no longer price purely on financials. ESG tells us whether this borrower will still be bankable in ten years."**

Mid-Market Firms Under Pressure - The New ESG Imperative

ESG used to be the realm of listed corporates and MNCs. Today, **mid-market firms - the backbone of India's and the UAE's economies are finding themselves under the same spotlight.**

It's Not Just the Blue-Chips Anymore

Mid-sized firms, typically with revenues between $10 million and $500 million, are being asked ESG questions that used to be reserved for the Fortune 500: How energy efficient is your plant? How safe are your workplaces? How transparent are your suppliers?

And the answers matter. Lenders now factor these into **loan terms, collateral requirements, and even basic eligibility.** Companies that once thought ESG was a 'marketing thing' are now realising it's a **credit risk input.**

Take the case of SMFG India Credit, which secured a €91 million sustainability-linked loan from Deutsche Bank (Times of India, 2024). The loan tied interest rate incentives to inclusive lending and gender-focused impact metrics, setting a precedent for ESG-linked lending even in the Indian NBFC sector.

A Competitive Edge or a Hidden Handicap

For some mid-market companies, ESG is becoming a strategic differentiator. Manufacturers who publish sustainability reports, ensure labour compliance, and reduce emissions are securing better terms, sometimes even ahead of better-capitalised but less sustainable peers.

On the other hand, firms that ignore ESG may face **higher interest rates, stricter covenants, or outright rejections.** The financial case for ESG is becoming too large to ignore.

In the UAE, this is playing out in real time. HSBC's mid-market Sustainability Improvement Loan ties pricing to ESG scores provided by EcoVadis (Arabian Business, 2024). The better a borrower's sustainability score, the lower their interest margin.

A Quiet Realisation

What's striking is how subtly this has crept in. For many mid-sized borrowers, **ESG is now acting as a form of collateral** - intangible, yet increasingly decisive.

In family-owned UAE businesses and growing Indian SMEs, CFOs are beginning to notice. Sustainability audits, emission tracking, and ethical sourcing are no longer extra costs. They're **financial enablers**, essential to securing long-term, low-cost capital.





India's ESG & Credit Landscape - Regulation and Market Shifts

India's sustainability transition is not just environmental - it is financial. ESG considerations are moving from investor presentations into the core of the country's lending systems, steered by regulatory reforms and financial innovation.

SEBI Tightens, Then Eases the Rules - For Good Reason

The **Securities and Exchange Board of India (SEBI)** mandated ESG reporting for the top 1,000 listed companies through the **Business Responsibility and Sustainability Report (BRSR)**, a framework intended to standardise ESG disclosures across corporate India.

In response to concerns from smaller firms and supply chain partners, SEBI is now easing some of these requirements. The regulator has:

01

Deferred ESG disclosure requirements for value chain partners by one financial year.

02

Made such disclosures voluntary (rather than 'comply or explain').

03

Narrowed the definition of "value chain partner" to only those contributing to 2% or more of a company's purchases or sales.

These revisions were designed to reduce the compliance burden and encourage wider adoption without overwhelming smaller players (SEBI, 2024, Vinod Kothari Consultants, 2024).

The RBI Raises the Bar for Banks

The Reserve Bank of India (RBI), meanwhile, has turned its attention to the banks themselves. In 2024, it released a draft disclosure framework urging financial institutions to assess and disclose how climate-related and ESG risks affect their strategy, governance, and risk management processes (Reuters, 2024).

This framework includes expectations for:

1. Climate stress testing
2. Internal ESG risk assessments
3. Governance protocols for climate and sustainability issues

In effect, Indian banks are now expected to factor ESG into how they lend, price risk, and assess loan quality.

Financial Products Reflect the Shift

The market has not waited. Indian institutions and corporates are responding with ESG-linked financial products. Examples include:

SMFG India Credit, which raised a €91 million sustainability-linked loan from Deutsche Bank, with targets tied to inclusive lending and gender metrics (Times of India, 2024).

UltraTech Cement, which recently secured $500 million in sustainability-linked financing from a consortium of six banks, coordinated by Sumitomo Mitsui. The company's ESG targets include lowering carbon intensity and increasing renewable energy usage (Reuters, 2024).

Green bonds issued by public and private Indian banks like SBI and HDFC, with funds directed towards low-carbon infrastructure and clean energy.

These examples mark the growing appetite for ESG-linked debt instruments, and the ability of Indian firms to leverage sustainability to unlock capital.

Pressure Mounts on Mid-Market Borrowers

Although SEBI's rules apply only to the top 1,000 listed firms, their **supply chains are vast** - and the pressure to disclose is trickling down. A mid-sized auto component supplier or textile manufacturer is now being asked by its buyers to share ESG data, and increasingly, by its bank as well.

According to Reuters (2023), Indian banks like SBI have begun assessing the **carbon risk of their loan books**, under investor and regulatory pressure. To support this, several lenders have formed **dedicated sustainable finance teams.**

This means ESG data is no longer a voluntary extra. For borrowers, it's becoming a **decisive input** into risk assessment, loan pricing, and portfolio alignment.





The UAE's ESG & Credit Landscape – Vision 2050 and Financial Policy

The United Arab Emirates (UAE) is emerging as a regional front-runner in sustainable finance. ESG is no longer peripheral in the Emirates — it is becoming part of banking supervision, financial regulation, and even credit pricing.

Policy Backing: Vision 2050 and ESG Guidelines

In support of its Net Zero by 2050 Strategic Initiative, the UAE established the **Sustainable Finance Working Group (SFWG)**. This multi-agency body includes the Central Bank of the UAE (CBUAE), the Securities and Commodities Authority, and other financial regulators.

In 2020, the group published the UAE Guiding Principles on Sustainable Finance — a roadmap encouraging banks and capital market participants to integrate ESG into their operations and risk management. The framework aims to direct capital toward green and inclusive sectors (Norton Rose Fulbright, 2020).

CBUAE Mandates Climate Risk Oversight

In 2023, the Central Bank of the UAE published formal principles on how banks must manage climate-related financial risks. These principles instruct banks to:

01 Embed climate risk into governance and strategy

02 Conduct scenario analysis and stress testing

03 Disclose ESG risks and opportunities

These expectations align with global frameworks like the TCFD and make ESG integration a de facto requirement in credit and lending decisions (CBUAE, 2023).

First-Mover Lending: DP World and HSBC

The shift is not just regulatory — it's operational. In 2018, **DP World secured a $2 billion loan**, where the interest rate was tied to the company's carbon intensity per container moved - one of the first sustainability-linked loans in the region (Arabian Business, 2018).

More recently, HSBC launched **Sustainability Improvement Loans** for **mid-sized UAE corporates,** linking pricing to ESG ratings from EcoVadis. These structures reward companies for improving their ESG scores with reduced loan margins (Arabian Business, 2024).

Green Bonds, Sukuk, and ESG Indices

Beyond loans, the UAE is leveraging its capital markets to support ESG ambitions:

1. Masdar and DEWA have issued green bonds to fund solar and wind projects
2. DP World recently issued a Blue Bond, tied to ocean conservation
3. ESG indices launched by ADX and DFM are encouraging listed companies to disclose sustainability performance

These products create an ecosystem where ESG disclosure is increasingly rewarded — and where banks are incentivised to align lending portfolios with sustainability priorities.

Mid-Market Adaptation Begins

The implications are clear for mid-market businesses. Banks now view ESG not just as compliance, but as a **proxy for long-term viability**. Family businesses and SMEs are finding that their ESG performance is quietly shaping their **financing eligibility, collateral treatment, and loan terms.**

The message is subtle, but decisive: in the UAE, **sustainability performance is beginning to matter as much as credit ratings** and banks are pricing that in.

Sustainability-Linked Loans and Green Finance - New Norms in Lending

What began as a niche financing instrument is now quickly becoming the new normal. **Sustainability-Linked Loans (SLLs)** are increasingly shaping corporate borrowing across industries and they're no longer restricted to the world's largest firms. Mid-market companies in India and the UAE are beginning to tap into this flexible but performance-bound financing option.

What Are SLLs? And How Are They Different?

SLLs differ from traditional green loans in one key way: they **do not limit how the loan is used**, but instead **tie the cost of borrowing to ESG performance targets**. These might include reductions in carbon emissions, improvements in board diversity, or independent ESG rating improvements.

If the borrower meets or exceeds its targets, it gets a better interest rate. If not, a pricing penalty applies. It's a mechanism that embeds ESG discipline directly into the loan agreement.

According to a recent analysis, the **global SLL market has seen exponential growth** in recent years, with banks across EMEA, Asia, and North America embracing the format. The growing appeal is due to the structure's flexibility and its alignment with corporate and lender ESG commitments (Vinod Kothari Consultants, 2024).

UAE: A First Mover in ESG-Linked Lending

The UAE has been at the forefront in the Gulf. As early as 2018, **DP World raised $2 billion through a sustainability-linked loan**, tying interest rate adjustments to the company's carbon intensity per container moved (Arabian Business, 2018).



In 2024, **HSBC expanded its offering to mid-sized UAE corporates** with Sustainability Improvement Loans, where loan pricing is based on a borrower's EcoVadis ESG rating. This brought SLLs into the realm of family-run logistics firms, regional suppliers, and even light manufacturers (Arabian Business, 2024).

India's Growing Appetite for ESG-Linked Debt

Indian companies and banks have begun following suit. In August 2024, **UltraTech Cement raised $500 million via sustainability-linked financing**, with ESG performance tied to emissions reduction and renewable energy targets (Reuters, 2024).

This deal was coordinated by six banks and is part of a broader trend: Indian borrowers, including non-listed and mid-cap firms, are beginning to structure loans around their sustainability goals — not just market access.

Other institutions such as Axis Bank, YES Bank, and Union Bank of India have signalled increasing interest in scaling ESG-linked loan products to SMEs and project finance.

Beyond SLLs: An Expanding Toolkit

SLLs are only part of a larger sustainable finance toolkit, which also includes:

1. **Green loans**, earmarked for specific low-carbon projects
2. **Green and social bonds**, popular with listed firms and banks
3. **Sustainable supply chain finance**, which rewards suppliers for meeting ESG criteria

These mechanisms are enabling even mid-sized firms to access capital more efficiently — especially if they are embedded in the supply chains of large, sustainability-driven corporations.

From Novel to Expected

Sustainability-linked finance is no longer a novelty. For a growing number of firms, especially in India and the UAE, it is becoming **a strategic route to reduce cost of capital,** improve reputation, and future-proof borrowing relationships.

ESG Scoring and Credit Ratings - Emerging Evaluation Tools

As ESG integration matures, financial institutions are no longer relying solely on sustainability reports or voluntary disclosures. Instead, they are turning to **structured ESG scores**, increasingly used to support lending decisions, assign credit ratings, and manage long-term portfolio risk.

SEBI's Framework for ESG Rating Providers

In July 2023, the **Securities and Exchange Board of India (SEBI)** introduced a regulatory framework to govern **ESG Rating Providers (ERPs)** in India. The guidelines require ERPs to be registered, operate with defined processes, and adhere to transparency norms. The move is designed to enhance the **credibility, comparability, and accountability** of ESG ratings used across capital markets and credit institutions (SEBI, 2023).

Key provisions include:

01	**Registration mandates** for ERPs under two categories: Category I (certified green debt rating) and Category II (general ESG ratings)
02	**Mandatory disclosures** of rating methodology, data sources, and conflicts of interest
03	**Ongoing supervision** to ensure consistency and independence of ESG assessments

With this, SEBI is effectively laying the foundation for ESG scores to play **a role as serious as credit ratings** in financial decision-making.

Global Credit Rating Agencies Follow Suit

Traditional credit rating agencies such as **Fitch Ratings**, **S&P**, and **Moody's** are now incorporating ESG factors directly into their credit evaluations.

- **Fitch** assigns **ESG Relevance Scores** to reflect whether and how ESG issues materially affect credit ratings.
- **Moody's**, in a recent analysis, flagged India's environmental vulnerabilities, including water stress and pollution exposure, as sovereign credit risks that could affect long-term debt sustainability (Reuters, 2024).

This means that for companies operating in India or exposed to similar risks, **ESG performance may influence borrowing costs**, bond pricing, or even market access.

Regional ESG Scores Are Catching Up

India's **CRISIL** and other local agencies are developing ESG scoring tools tailored to domestic regulations and risk factors. These local frameworks are especially useful for **mid-sized or unlisted companies**, helping them benchmark performance, attract capital, and qualify for ESG-linked lending.

In the UAE and broader Gulf region, ESG scoring is increasingly delivered through **partnerships** between banks and global platforms like EcoVadis or Refinitiv. These scores are used to assess suppliers, underwrite sustainability-linked loans, or identify low-risk sectors for green lending.

From Reports to Risk Metrics

The role of ESG scoring has expanded from "nice-to-have" data to **risk-sensitive input**. A good ESG score today can:

- Support **better credit terms**
- Reduce **collateral requirements**
- Act as a **soft qualifier** for ESG-linked finance
- Improve **investor appetite**

While not yet as standardised as credit ratings, ESG scores are now **functionally operating as a second credit score** - one that evaluates long-term viability in a changing regulatory, environmental, and reputational landscape.

Practical Steps for Companies Entering ESG-Linked Finance

For companies looking to prepare for ESG-linked finance, readiness is crucial. Here are five practical steps to align with emerging lender expectations:

01 Baseline Assessment

Conduct a materiality assessment and ESG baseline audit to identify key environmental, social, and governance risks and opportunities specific to your sector

02 Set Clear, Measurable Targets

Develop ESG goals that are specific, measurable, and aligned with global standards (e.g., Scope 1 and 2 emissions reduction, board diversity, water use efficiency)

03 Enhance Data Collection and Reporting

Implement systems for accurate ESG data collection, tracking, and voluntary disclosure even if not yet mandated (e.g., GRI, SASB, BRSR frameworks)

04 Engage Stakeholders Across the Value Chain

Work with suppliers, customers, and employees to embed sustainability practices throughout your operations and supply chain

05 Obtain an Independent ESG Rating

Engage with credible ESG rating providers to assess and verify your ESG performance, improving transparency for lenders and investors

These steps are not just best practices. They are fast becoming prerequisites for securing competitive financing and building long-term resilience.

Implications for Borrowers and Lenders

The integration of ESG into finance is no longer theoretical. It is changing how banks assess creditworthiness, how regulators supervise risk, and how companies compete for capital.

These shifts have profound implications, especially for mid-market borrowers and the institutions that finance them.

What This Means for Borrowers

For companies seeking capital, particularly in India and the UAE, ESG performance is rapidly becoming a **strategic financial input.**

ESG Is Now a Business Enabler
A strong ESG profile can reduce interest rates, improve credit terms, and unlock sustainability-linked loans or supply chain finance. It is no longer just about compliance - it's about securing competitive finance

Mid-Market Firms Must Act Proactively
Many mid-sized companies are only now realising that their ESG scores affect access to working capital, project finance, or export-linked loans. Waiting for regulation or buyer pressure may leave them behind. Voluntary disclosures, ESG audits, and improvement plans can help build resilience, and reputation

Carbon and Compliance Are Only the Start
Environmental risk is important, but so is governance quality, labour standards, and transparency. Banks are using multi-dimensional ESG scoring. This means firms must think beyond carbon footprints, and take a broader approach to sustainability reporting and risk mitigation

ESG Strategy Should Be Board-Level, Not Just CSR
CFOs, not just sustainability officers, must begin to understand how ESG indicators affect the cost and availability of capital. In many cases, ESG is already showing up in **term sheets, covenants, and interest margins**, even if not explicitly labelled

What This Means for Lenders

For banks and financial institutions, ESG integration is no longer optional, it is becoming a **regulatory expectation and competitive necessity.**

- **ESG Must Be Built Into Credit Models**
  Traditional risk assessments are no longer sufficient. Institutions must integrate ESG data, including third-party ratings and internal assessments into pricing, underwriting, and portfolio risk management

- **Early Movers Will Have an Advantage**
  Banks that develop sustainable finance teams, ESG-linked products, and strong risk governance now will be better positioned for future regulations, investor scrutiny, and borrower demand

- **Greenwashing Must Be Avoided**
  As demand for ESG-linked products rises, so does scrutiny. Lenders will need clear frameworks, robust data, and auditable metrics to ensure credibility and avoid reputational risk

- **Partnerships Will Be Critical**
  From ESG ratings to emissions tracking and impact validation, many banks will need to work with external platforms and advisors. This is particularly important when serving mid-sized firms that lack internal ESG expertise

Systemic Impact: A Shift in Capital Allocation

Beyond individual transactions, the trend is reshaping how capital flows through the economy. As banks and investors move towards ESG alignment, capital is shifting:

- Away from high-risk, high-carbon sectors
- Towards low-carbon infrastructure, responsible supply chains, and well-governed firms

This redirection of capital, if sustained, could **accelerate national sustainability goals,** but only if smaller firms are supported in the transition.

Policymakers and regulators in both India and the UAE must therefore ensure that the ESG-finance nexus is **inclusive and scalable**, with clear guidelines, incentives, and capacity-building for mid-market firms.

Embracing ESG as the New Collateral in Finance

A structural shift is quietly unfolding within the credit systems of India and the UAE. ESG indicators, once peripheral or symbolic, are now being absorbed into core financial assessments. Credit pricing, collateral evaluation, covenant structure, and even capital access are beginning to reflect a borrower's environmental and social footprint, alongside their balance sheet.

This integration is rarely loud or declarative. In most cases, it is embedded in internal risk models, tiered margin structures, or strategic asset allocations. But the implications are real. As banks adjust their methodologies and regulators refine disclosure mandates, ESG factors are becoming functionally equivalent to a new form of collateral: intangible, forward-looking, and tied to long-term viability.

In India, regulatory frameworks such as SEBI's guidelines for ESG Rating Providers and the Reserve Bank's draft climate risk disclosures are setting clear expectations for both companies and lenders. The expanding market for sustainability-linked loans, ESG bonds, and green finance illustrates that sustainability-linked performance is now a variable in credit outcomes. Meanwhile, mid-sized firms are beginning to respond, often not in anticipation of regulation, but in response to market pressure from supply chain partners or lender expectations.

The UAE presents a parallel but distinct evolution. ESG integration is being driven from the top down, supported by national climate policy and financial sector coordination. Institutions such as the Central Bank of the UAE have begun to issue guidance requiring banks to consider climate risk in governance and credit decisions. The emergence of ESG-linked instruments, including blue bonds and sustainability improvement loans, further demonstrates the market's readiness to translate ESG metrics into pricing and access advantages.

Across both geographies, it is becoming evident that ESG scores are not displacing traditional collateral, but supplementing it. They act as a filter for credit risk, a proxy for future-proofing, and a signal of operational resilience. For many borrowers, especially in carbon- or compliance-intensive sectors, ESG performance now exerts a tangible influence on how much they can borrow, under what conditions, and at what cost.

As global climate agreements, investor mandates, and disclosure expectations continue to evolve, the financial materiality of ESG factors will likely deepen. In time, ESG assessments may become as commonplace in loan origination as credit scores and revenue forecasts.



For companies navigating this shift, preparation is key.

Identifying material ESG risks, setting measurable targets, building transparent reporting systems, and securing independent ESG ratings are no longer optional. They are strategic necessities.

At **KarbunWise**, we help organisations integrate ESG into their core operations, making sustainability a driver of financial strength. Our solutions are tailored to support businesses at each step of this journey, helping them align with emerging lender expectations and regulatory standards.

We focus on three key areas:

ESG Risk Mapping and Materiality Assessment

We assist companies in identifying material ESG risks and opportunities through comprehensive baseline audits and stakeholder engagement, creating a clear roadmap for action

Target Setting and Data-Driven Reporting

We support the development of measurable, globally aligned ESG targets and build systems for data collection and reporting that meet leading frameworks such as GRI, SASB, and the BRSR

Disclosure Readiness and ESG Scoring

We work with credible ESG rating providers to help companies achieve independent ESG assessments, enhancing transparency and improving their financing options

> ***Our aim is to simplify ESG integration, enabling businesses to not only meet market expectations but to leverage ESG performance as a strategic asset.***

In this emerging context, ESG performance is no longer merely reputational. It is financial.

Quietly and systematically, it is becoming the new collateral.

KARBUNWISE™