ESG IN INDIA

Reshaping India's Corporate World

KIRTANE & PANDIT

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1. EXECUTIVE SUMMARY

In 1970, Milton Friedman, in an essay for The New York Times, wrote "A Friedman Doctrine: The Social Responsibility of Business is to Increase Its Profits." Today, the sentiment has changed. In recent years, the words "sustainability" and "ESG" are global trends that are rapidly gaining momentum. A Deloitte 2024 Report states that almost 63% of millennials are willing to pay more to purchase environmentally sustainable products or services.

Since the late 20th century, there has been growing awareness of climate change and environmental and social challenges arising out of industrialization and resource depletion around the world. Today, Environmental, Social, and Governance (ESG) considerations influence many aspects in the global business and regulatory landscape and are emerging as critical priorities that impact stakeholders at all levels in decision-making, investment decisions, and analysing risks and opportunities.

In 2023, the global average atmospheric carbon dioxide reached a record high at 419.3 parts per million. India ranked at the lowest position among 180 countries in the World Economic Forum's Environmental Performance Index (EPI) in 2022. India and China are predicted to become the world's largest emitters of greenhouse gases by 2050. In order to combat climate change, India set a target of net zero by 2070, along with key milestones to be achieved by 2030. India is also doubling its efforts on reducing its carbon emissions and focusing on renewable energy sources.

India's efforts to reduce its carbon footprint also extend to regulatory activity, for example, SEBI's introduction of the Business Responsibility and Sustainability Report (BRSR) in 2021, which is the only regulation in India that governs all three pillars of ESG, namely, environmental, social, and governance. The BRSR is aligned with global practices such as the UN's Sustainable Development Goals (SDGs), and is mandatory for the top 1,000 listed companies as per market capitalisation from FY 2022-23 onwards, with voluntary disclosure encouraged. The top 1000 listed companies must include a set of Key Performance Indicators (KPIs) ("BRSR Core") in their annual report to SEBI, including value chain disclosures on a comply-or-explain basis. From financial year 2025-26, the top 150 listed companies must also obtain mandatory assurance from an independent agency in relation to BRSR core. India became the first nation to introduce reasonable assurance in non-financial disclosures.

While companies disclose their ESG performance as per regulatory frameworks, independent ESG rating agencies provide ESG scores or ratings which influence investor decisions. Each rating agency uses its own set of metrics to provide the ESG rating or ESG score. At present, there is no set of universal metrics or standards, and therefore, the ESG score may vary based on the methodology used by the ratings agency, the specific industry / sector, and the geographical location. SEBI has mandated that an ESG Rating Provider (ERP) must be certified from SEBI before providing any ESG rating services.

ESG metrics also form a significant factor in today's investment market, and sustainable investing or ESG investing is being widely promoted by large companies around the world. According to a 2023 survey by Capital Group, ESG adoption rate by investment professionals reached 90% globally. Studies, particularly in the aftermath of the COVID-19 pandemic, have demonstrated that companies with better ESG ratings outperform their peers with lower ratings and also provide higher average annual returns.

According to a 2024 report by Morgan Stanley's Institute for Sustainable Investing, investments in sustainable funds hit USD 3.5 trillion in assets under management (AUM) despite slowing inflows, representing 7% of total global AUM. In India, as of 2024, there are 11 sustainable investment funds, with a total AUM of USD 1176.6 million. In January 2023, India issued the first tranche of its first sovereign green bond worth INR 80 billion. With increasing capital inflows, stock exchanges have begun introducing different indices to track the growth, with 4 already established in India - S&P BSE 100 ESG Index, Nifty 100 ESG Index, Nifty 100 Enhanced ESG Index, and Nifty 100 ESG Sector Leaders Index.

However, ESG is still a developing concept when it comes to global adoption and regulatory disclosure. There are severe challenges to be overcome, such as the practice of greenwashing, i.e., making misleading or exaggerated claims about a company's environmental or social performance. There is also a lack of standardization in ESG ratings methodologies, which are often not disclosed, leading to globally incomparable ESG metrics and scores. Further, a lack of awareness or understanding of ESG frameworks have caused controversies around the world, leading to an urgent need for regulation and transparency on sustainability practices.

In India, ESG compliances are complex and resource-intensive, highlighting the need for skilled professionals and consultants to help equip companies with the necessary knowledge. The BRSR is yet to provide specific guidelines on the KPIs to be disclosed. While disclosures on a comply-or-explain basis provide companies time and flexibility to improve their ESG metrics, certain requirements provide a challenge. For example, the inclusion of value chain disclosures in the BRSR puts additional burden on companies that work with smaller and medium enterprises (SMEs) , which are typically not up to date on sustainability practices. This requires a collaborative effort within the sector, so that upstream and downstream value chain partners can improve on ethical practices.

In order to address these challenges, SEBI, with its proactive approach in establishing a robust ESG framework, along with the Institute of Chartered Accountants of India (ICAI), have together been active in boosting India's ESG efforts.

ICAI has released the Standard on Sustainability Assurance Engagements (SSAE) 3000, which provides a framework for assurance engagements on an entity's sustainability information. ICAI has also issued 16 Social Audit Standards (SAS) on each of the thematic areas for social audit engagements laid down by SEBI in the framework for social stock exchange in India.

The Indian government is also focusing its efforts on achieving its net zero targets and the key milestones by 2030. India's national score for the 2023-24 SDG Index (NITI Aayog's National Indicator Framework (NIF)) was 71, up from 66 in 2020-21, indicating significant progress in areas like poverty eradication and climate action. Foreign direct investment (FDI) in India's renewable energy sector surged to USD 2.5 billion in FY 2022-23 (up by 56% from the previous year). At the Indo-Pacific Economic Framework for Prosperity (IPEF) meeting in June 2024 in Singapore, investment opportunities in India of over USD 500 billion were highlighted by 2030, particularly in clean energy, i.e., renewables, green hydrogen, and EV infrastructure.

India is making great strides towards reducing its carbon emissions and focusing on renewable energy sources, and companies are increasingly aware and transparent about their efforts in disclosure their ESG practices. With the collaboration of all stakeholders, India has the potential to strengthen its ESG framework and to emerge as a global leader in sustainable business practices.

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2. ESG: An Overview

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG)

IS A FRAMEWORK USED TO EVALUATE A COMPANY'S PERFORMANCE AGAINST ITS RESPONSIBILITY TOWARDS THE ENVIRONMENT AND TOWARDS SOCIAL AND REGULATORY FACTORS.

With sustainability as the buzzword in today's corporate world, ESG considerations impact stakeholders at all levels in decision-making, investment decisions, and analysing risks and opportunities.

2.1. The Three Pillars of ESG

Across the globe, ESG is being incorporated into corporate policies. While regulations may vary across countries and are implemented at a national level, broadly speaking, the three pillars of ESG usually comprise of the following:

Environmental (E)

Focuses on a company's interactions with the natural environment

- Climate Change and Greenhouse Gas (GHG) Emissions
- Resource Depletion
- Pollution
- Waste
- Biodiversity and deforestation
- Water Security

Social (S)

Focuses on a company's relationship with its employees, suppliers, customers, and its community

- Diversity and Inclusion
- Employee Health and Safety
- Human Rights
- Animal Welfare

Governance (G)

Focuses on how a company is governed

- Board Diversity and Structure
- Executive Compensation
- Ethics and Corporate Policies
- Tax Transparency
- Donations and Political Lobbying

2.2. The Journey Towards Sustainability

The roots for responsible and sustainable investment can be traced to a few significant concepts and events around the world.

Socially Responsible Investing (SRI):

In the 1980s, following global outrage against companies operating in South Africa during the apartheid, the concept of Socially Responsible Investing (SRI) grew in popularity. SRI focuses primarily on social issues such as human rights, labour practices, and supply chain ethics.

Triple Bottom Line:

In 1998, the concept of the triple bottom line was popularized by John Elkington, which refers to the financial, environmental, and social factors to be included while determining the value of a company or equity.

The triple bottom line concept suggests that a company's business model should revolve around the three P's: people, planet and profit. This core concept has led to the evolution of sustainable business practices such as responsible sourcing, worker rights, and corporate social responsibility (CSR).

Together, the concepts of SRI and triple bottom line have evolved into corporate social responsibility, and finally, the ESG framework. The term ESG was first coined in a United Nations report titled 'Who Cares Wins' in 2004. During the 2010s, many ESG frameworks and standards were established to helps businesses, investors and other stakeholders understand and report their sustainability impacts (covered in the following section).

Climate Change, Global Carbon Footprint, and Net Zero Goals:

Since the late 20th century, there has been growing awareness of climate change and environmental and social challenges arising out of industrialization and resource depletion around the world. The rising global carbon footprint highlighted the need for urgent measures to address climate change. In 2023, the global average atmospheric carbon dioxide reached a record high at 419.3 parts per million.

In 2015, the Paris Agreement, a legally binding international treaty on climate change, was adopted by 196 countries. The major goal of the Paris Agreement was to limit global warming to 1.5°C above pre-industrial levels to avert the worst impacts of climate change by establishing nationally determined contributions (NDCs).

As of September 2023, over 90 countries across the globe, including India and the EU, have set targets for net zero emissions by 2040 globally and 2035 in leading markets. Together, these countries account for more than 85% of global emissions and 90% of global GDP. The net zero targets can be met by strengthening the Nationally Determined Contributions (NDCs).

The top 4 countries with the highest CO2 emissions in 2024 are as follows:

Country	CO2 Emissions in 2024
China	32%
United States	13%
India	8%
European Union	7%

Indian emissions from fossil fuels are projected to increase by 4.6% in 2024, according to a Global Carbon Project Study. In 2022, India ranked at the lowest position among 180 countries in the World Economic Forum's Environmental Performance Index (EPI) down from the 168th rank in 2020). The major contributors for this score and the most urgent challenges identified included deteriorating air quality and rapidly rising GHG emissions. The report also projected India and China to be the world's largest emitters of greenhouse gases by 2050. The top five ranked countries in 2022 were Denmark, the UK, Finland, Malta, and Sweden.

India has set a target of net zero by 2070, along with the following key milestones by 2030:

- Meet 50% of its energy requirements using renewable energy.
- Reach 500 gigawatt non-fossil fuel energy capacity.
- Reduce 1,000,000,000tonnes of CO2 emissions.
- Reduce the carbon intensity of the economy by 45% over 2005 level.

Along with plans to reduce its carbon footprint, India's efforts also extend to regulatory activity, for example, SEBI's Business Responsibility and Sustainability Report (BRSR) which is mandatory for India's top 1,000 listed companies from FY 2022-23 (covered in detail in Section 3).

COVID-19 Pandemic:

The 2020 pandemic was regarded by some experts as the world's first sustainability crisis. As businesses and financial markets around the world took a hit, the pandemic also highlighted the need for more robust ESG practices. The pandemic also caused a shift in consumer behaviour, resulting in a larger pool of conscientious consumers who are willing to pay more for more environmentally and socially conscious products. In 2021, the Indian government waived off the CSR requirement for Indian companies on account of the pandemic, essentially allowing companies undertaking activities to tackle the pandemic as part of their CSR spending.

Studies have demonstrated that companies with strong ESG practices show stronger return on investment (ROI) than their peers. A 2023 study by Kroll, an independent provider of global risk and financial advisory solutions, which analysed data on over 13,000 companies, found that companies with better ESG ratings outperformed their peers with lower ratings, and also demonstrated higher average annual returns.

2.3. Global ESG Framework

A Deloitte 2024 Report states that almost 63% of millennials are willing to pay more to purchase environmentally sustainable products or services. Today, there is a great push towards standardization and transparency in ESG reporting with stakeholders and investors showing growing interest in companies with good ESG practices. ESG factors are also a vital part of investment decision making, and countries around the world are implementing mandatory ESG disclosures.

An ESG reporting framework is a set of guidelines and standards used to create clear, structured, and actionable sustainability reports. ESG standards, on the other hand, provide specific guidelines and requirements for reporting on ESG issues and often include metrics and indicators for making ESG related disclosures.

2.3.1.Top 5 Global ESG Frameworks and Standards

1. CDP (formerly the Carbon Disclosure Project)
Founded in 2000, the CDP is a global non-profit that operates one of the oldest and largest disclosure system for measuring and analysing environmental data and performance. This framework mainly focuses on the E aspect of ESG, with some aspects covering governance related criteria. In 2024, more than 23,000 companies participated in CDP's environmental data reporting (up by 20% from 2023), and CDP represented investors with more than USD 136 trillion in assets.

2. Global Reporting Initiative (GRI): Global Reporting Initiative (GRI) is an independent organization founded in 1997. In 2017, the GRI released the first global standards for sustainability reporting. The GRI Standards are the world's most widely used sustainability reporting standards and focus equally on all three aspects of ESG. According to a KPMG survey, as of 2022, 78% of the world's largest 250 companies use the GRI Standards.

3. United Nations Sustainable Development Goals (SDGs)
In 2015, UN Member States adopted the 2030 Agenda for Sustainable Development, which lays down 17 Sustainable Development Goals (SDGs), which are also known as Global Goals. While this is not a reporting framework, several reporting frameworks, such as the CDP, GRI, and SASB, and even India's BRSR framework (covered below), collaborate with these goals.

4. Task Force on Climate Related Financial Disclosures (TCFD)
The TCFD was established in 2015 and provides information to investors about what companies are doing to mitigate the risks of climate change, as well as to be transparent about the way in which they are governed. In 2017, the TCFD released voluntary climate-related financial disclosures. As of 2019, nearly 60% of the world's top 100 publicly traded firms backed or acknowledged implementing the TCFD recommendations. In the UK, large companies are mandated to disclose climate-related information in line with the TCFD's recommendations. As of 2024, the TCFD has been disbanded, and monitoring will be taken over by the IFRS.

5. Sustainability Accounting Standards Board (SASB)
The SASB are a widely used set of standards, and track ESG issues and performance across 77 industry standards. Asset management companies such as BlackRock, Goldman Sachs and Morgan Stanley use SASB Standards to disclose ESG metrics. In 2022, the Sustainability Accounting Standards Board (SASB) and the International Sustainability Standards Board (ISSB) were consolidated under the IFRS Foundation.

In 2024, the International Sustainability Standards Board (ISSB) launched the implementation of IFRS S1 and S2 standards, which are based on the TCFD and SASB Standards.

2.3.2. ESG Ratings and Rankings

ESG investing, also called sustainable investing, responsible investing, impact investing, or socially responsible investing (SRI), is where investment decisions are made by assessing ESG metrics of a company. Investors are increasingly conscious about investing in companies that are responsible about their ESG practices. There are many ESG investment funds and products, and even indices that track the performance of ESG funds (covered in detail in later sections).

While companies disclose their ESG performance as per regulatory frameworks, independent ESG rating agencies provide ESG scores or ratings which influence investor decisions. Each rating agency uses its own set of metrics to provide the ESG rating or ESG score. At present, there is no set of universal metrics or standards, and therefore, the ESG score may vary based on the methodology used by the ratings agency, the specific industry / sector, and the geographical location.

ESG rating agencies collect ESG data from different sources, for e.g., sustainability reports, financial statements, regulatory records, or data from third-party providers, or perform their own research. Different frameworks are used by different agencies; however, the ESG score generally reflects an overall assessment of the company's policies based on ESG metrics. The ESG score often consists of a quantitative score and a risk category, and may be based on a numerical scale, alphabetical grades or a relative grading system.

In the US, there are over 140 firms that provide ESG scores, each with a slightly different approach with their rating system. The largest ESG rating agencies in the world include MSCI, Sustainalytics, S&P, and FTSE Russell. In India, the top ESG rating agencies are Moody's, CRISIL, and ESGRisk.ai.

2.4. ESG and Value Creation

The business advantages of ESG go beyond mere compliance requirements and have demonstrated several positive implications for companies. The value drivers of ESG can be categorized into three main areas as follows:

1. Market Drivers

- **Growing investor interest in ESG**
  Investors are increasingly incorporating ESG factors into their investment decisions. Companies with strong ESG performance are better equipped to manage risks, seize opportunities, and generate sustainable returns, as demonstrated by the COVID-19 pandemic. ESG funds today are experiencing significant growth in recent years, indicating a strong investor appetite for companies with sound ESG practices.

- **Consumer demand for sustainable products and services**
  Consumers are more conscious of the environmental and social impact of their consumption choices and favour products and services from companies with strong ESG credentials. As per a 2021 PwC survey, around 83% of consumers surveyed believed that companies are responsible for shaping ESG best practices, and 76% percent of consumers stated they will discontinue relations with companies that treat employees, communities and the environment poorly.

- **Stakeholder engagement**
  ESG performance is a key factor in building trust and maintaining strong relationships with a wide range of stakeholders, including customers, employees, suppliers, and investors. Transparent ESG disclosure helps companies communicate their values and demonstrate their commitment to the community.

2. Regulatory Drivers

Regulations such as mandatory ESG reporting and Corporate Social Responsibility (CSR) are being implemented around the world to enhance transparency and accountability on ESG metrics. The global push towards ESG incentivises companies to voluntarily disclosure their ESG practices to attract foreign investors and tap into new markets.

3. Value Creation for Environment and Society

ESG practices help companies minimize their negative environmental and social impacts, including reducing greenhouse gas emissions, conserving water resources, minimizing waste, promoting ethical labour practices, safeguarding human rights and more. A good ESG score also helps companies build better community relations and create positive value for the environment and society by adopting responsible practices throughout their value chain such as investing in renewable energy, developing sustainable products, and promoting diversity and inclusion.

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3. ESG Regulation in India

India's rapid economic growth and its commitment to sustainable development have placed a spotlight on Environmental, Social, and Governance (ESG) considerations. Projected to become the world's most populous country and a major economic powerhouse by 2030, India faces the dual challenge of achieving rapid growth while ensuring environmental sustainability and social inclusion.

3.1. ESG Under Various Indian Regulations

In India, ESG is not regulated by one single law or statute. The regulations are instead spread under various existing laws and regulations as covered below:

		E	S	G
Energy Conservation Act 2001 and Energy Conservation (Amendment) Bill 2022	Sets energy consumption standards for various equipment and appliances and promotes energy efficiency in different sectors. The 2022 amendment introduces provisions for a carbon credit trading scheme in India, thus allowing entities to trade carbon credits to meet their emissions reduction targets.	✓		
Environment Protection Act 1986	Environmental Impact Assessment (EIA) Norms, Pollution Control Standards	✓		
Companies Act, 2013	Mandatory Corporate Social Responsibility (CSR) which requires companies with a net worth of at least INR 500 crore, a turnover of at least INR 1000 crore, or a profit of at least INR 5 crore in the previous year to spend minimum 2% of their average profit from the last three years on CSR activities	✓	✓	
	Director responsibility, insider trading, whistleblower mechanism			✓
SEBI Business Responsibility Report ('BRR') and Business Responsibility & Sustainability Report (BRSR)	**Covered in detail below**	✓	✓	✓
Other Laws				
Prevention of Money Laundering Act, 2002				✓
Air (Prevention and Control of Pollution) Act, 1981		✓		
Water (Prevention and Control of Pollution) Act, 1974		✓		
Hazardous (Waste Management, Handling and Transboundary Movement) Rules, 2016		✓		
The Factories Act, 1948			✓	
Shops and Establishment (Regulation of Employment and Condition of Service) Act, 2017			✓	
Payment of Gratuity Act, 1972			✓	
SEBI Listing Obligations and Disclosure Requirements (LoDR) Regulations				✓

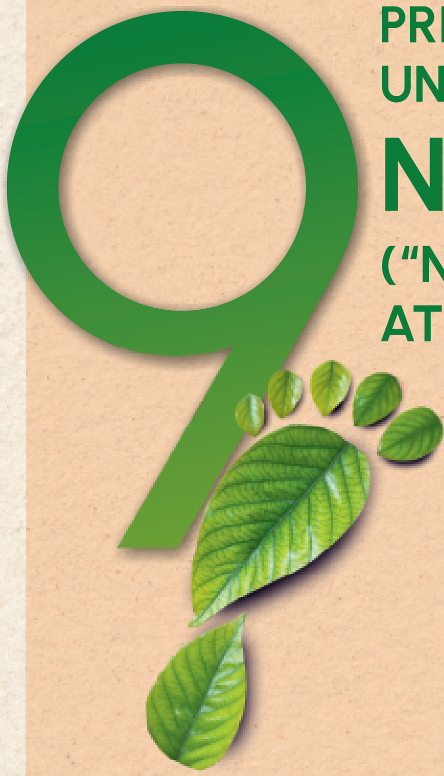
3.2. A Brief History of ESG Regulation in India

2012: SEBI introduces the Business Responsibility Reporting (BRR) which mandates the top 100 listed companies by market capitalisation to file a BRR along with their annual reports.

2013: The Corporate Social Responsibility (CSR) Act is introduced, which requires companies with either a net worth of INR 500 crores or more, turnover of INR 1,000 crores or more, or a net profit of INR 5 crores or more, to spend at least 2% of the average annual profit before tax on CSR-related activities.

2015: BRR requirements are extended to the top 500 listed companies by market capitalisation under voluntary reporting from April 2016.

2018: MCA and SEBI introduce the National Guidelines of Responsible Business Conduct (NGRBC) in order to align the guidelines with global practices such as the UN's Sustainable Development Goals (SDGs) (covered in detail in following sections). These guidelines contain nine principles which form the the framework of ESG in India:



PRINCIPLES UNDER THE NGRBC ("NINE ESG ATTRIBUTES")

- Businesses should conduct and govern themselves with integrity in a manner that is ethical, transparent and accountable.
- Businesses should provide goods and services in a manner that is sustainable and safe.
- Businesses should respect and promote the well-being of all employees, including those in their value chains.
- Businesses should respect the interests of and be responsive to their stakeholders.
- Businesses should respect and promote human rights.
- Businesses should respect and make efforts to protect and restore the environment.
- Businesses, when engaging in influencing public and regulatory policy, should do so in a manner that is responsible and transparent.
- Businesses should promote inclusive growth and equitable development.
- Businesses should engage with and provide value to their consumers in a responsible manner.

2021: SEBI introduces the Business Responsibility and Sustainability Reporting (BRSR) by amending the SEBI Listing Obligations and Disclosure Requirements (LODR) Regulations, 2015. The BRSR framework is based on the nine principles of the National Guidelines for Responsible Business Conduct (NGRBC). The BRSR is mandatory for the top 1,000 listed companies as per market capitalisation from FY 2022-23 onwards. SEBI also encourages voluntary adoption of BRSR reporting by listed and unlisted companies using the BRSR Lite format.

2021: NITI Aayog develops the National Indicator Framework (NIF), which monitors the progress of the Sustainable Development Goals (SDGs) in India through various mechanisms like the SDG India Index.

The NIF consists of 306 statistical indicators that are nationally defined to address national needs and priorities. India's national score for the 2023-24 SDG Index was 71, up from 66 in 2020-21, indicating significant progress in areas like poverty eradication and climate action.

2023: SEBI introduces specific requirements for the top 1000 listed companies to include a set of Key Performance Indicators (KPIs) relating to the nine ESG attributes ("BRSR Core"), including value chain disclosures on a comply-or-explain basis, along with mandatory assurance to be obtained from an independent agency in relation to BRSR core by the top 150 listed companies from financial year 2024-25.

3.3. ESG Framework in India

3.3.1. SEBI's Business Responsibility and Sustainability Reporting (BRSR) Requirements:

The BRSR framework has three main sections as follows:

Section A	General Information	Information about the company such as products and services Number of employees Holding structure, subsidiaries, joint ventures CSR activities
Section B	Management and Processes	Companies are required to disclose their policies and management processes relating to the NGRBC principles concerning leadership, governance, and stakeholder engagement.
Section C*	Principle-wise performance of the company	Companies are required to demonstrate their intent and commitment to responsible business conduct quantitative data according to the nine NGRBC principles.

Section A and Section B include mandatory information to be reported along with the annual report to SEBI. Section C refers to principle-wise performance to be reported under the BRSR. Each principle-wise performance has two components, namely, essential indicators, and leadership indicators, of which essential indicators must be reported mandatorily, whereas the leadership indicators remain voluntary for now.

A total of 140 questions must be answered providing Key Performance Indicators (KPIs) under the nine ESG attributes mentioned above:

Section C of the BRSR		
Essential Indicators (mandatory)	98 questions	Training programmes Environmental data on energy, waste, water and emissions Social impact
Leadership Indicators (voluntary)	42 questions	Lifecycle assessments Conflict management Biodiversity Energy consumption Scope 3 emissions Supply chain disclosures

Companies which already report their sustainability information based on internationally accepted frameworks may cross-reference their disclosures to align with the BRSR requirements.

3.3.2. BRSR Core and Value Chain Disclosures

BRSR Core is a subset of the BRSR format and applies from FY 2023-24. BRSR core refers to specific requirements for the top 1,000 listed entities to include a set of Key Performance Indicators (KPIs)/metrics relating to the nine ESG attributes as part of its BRSR. These KPIs already form part of the original BRSR reporting format, but BRSR core is a mandatory requirement for the reporting entities.

Financial Year	Applicability of BRSR Core to top listed companies (by market capitalization)
2023-24	Top 150 listed companies
2024-25	Top 250 listed companies
2025-26	Top 500 listed companies
2026-27	Top 1000 listed companies

The following Key Performance Indicators (KPIs) form part of BRSR Core (cross-referenced to Essential Indicators in the BRSR):

Attribute	Parameter
Greenhouse Gas (GHG) Footprint	Total Scope 1 and Scope 2 emissions (Greenhouse gas emissions may be measured in accordance with the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard)
Water Footprint	Total water consumption Water consumption intensity Water Discharge by destination and levels of Treatment
Energy Footprint	Total energy consumed % of energy consumed from renewable sources Energy intensity
Embracing Circularity – Details related to Waste Management	Plastic waste E-waste Bio-medical waste Construction and demolition waste Battery waste Radioactive waste Other Hazardous waste Other Non-hazardous waste Waste intensity Each category of waste generated, total waste recovered through recycling, re-using or other recovery operations For each category of waste generated, total waste disposed by nature of disposal method
Enhancing Employee Wellbeing and Safety	Spending on measures towards well-being of employees and workers – cost incurred as a % of total revenue of the company Details of safety related incidents for employees and workers (including contract-workforce e.g. workers in the company's construction sites)
Enabling Gender Diversity in Business	Gross wages paid to females as % of wages paid Complaints related to sexual harassment (POSH)
Enabling Inclusive Development	Input material sourced from following sources as % of total purchases – Directly sourced from MSMEs/ small producers and from within India Job creation in smaller towns – Wages paid to persons employed in smaller towns (permanent or non-permanent /on contract) as % of total wage cost
Fairness in Engaging with Customers and Suppliers	Instances involving loss / breach of data of customers as a percentage of total data breaches or cyber security events Number of days of accounts payable
Open-ness of business	Concentration of purchases & sales done with trading houses, dealers, and related parties Loans and advances & investments with related parties

Value Chain In BRSR

From FY 2025-26 (extended as on December 2024 by one year from earlier effective date of FY 2024-25), the top 250 listed companies by market capitalisation are also required to disclose BRSR Core information for their value chain on a comply-or-explain basis. For this purpose, the value chain should include the top upstream and downstream partners, individually comprising 2% or more of the purchases and sales respectively, but overall accounting for 75% of the entity's purchases or sales by value.

Listed companies are required to report KPIs in the BRSR Core for their value chain to the extent it is attributable to their business with such value chain partner. Companies must also clearly disclose the scope of reporting, including any assumptions or estimates made, to enhance transparency.

3.3.3. Mandatory Assurance for BRSR Core and Value Chain Disclosure

From FY 2026-27 (extended as on December 2024 by one year from earlier effective date of FY 2025-26), limited assurance must be obtained in relation to value chain disclosures on a comply-or-explain basis.

SEBI has mandated that the assurance must be obtained from an independent agency, requiring companies to undergo ESG audits. The Board of the company must ensure that the assurance provider possesses the requisite expertise to carry out reasonable assurance, and that there is no conflict of interest with the assurance provider.

SEBI guidelines also require asset management companies to allocate at least 80% of the AUM of ESG schemes in equity or equity-related instruments. ESG schemes are required to invest at least 65% of their AUM in companies that report using the BRSR format and which provide assurance on BRSR Core disclosures.

An analysis of India's BRSR and ESG Framework is covered in Section 7 below.

3.3.4. ESG ratings agencies

SEBI's 2023 circular has amended the regulations relating to ESG rating agencies, mandating that an ERP must be certified from SEBI before providing any ESG Rating Provider (ERPs). This rule also applies to foreign agencies that provide ESG ratings to Indian companies.

Under the current framework, ERPs must follow one of two types of revenue models:

- Issuer-pays model: The ERP provides ratings to the issuer, i.e., the listed company itself which requires ESG ratings to attract ESG funds.
- Subscriber-pays model: The ERP provides the ratings to a subscriber, which can be either a mutual fund, insurer, bank, or a foreign portfolio investor.

Certified ERPs are required to provide required information and report to SEBI. Further, they must disclose their rating methodology on their websites, including category-wise weightages of environmental, social, and governance factors in ESG ratings and the weightage of issues or themes within each of the three factors.

SEBI is considering revisions to this framework via a consultation paper, whereby ERPs following a subscriber-pays model must share the ESG rating report with the issuer and the subscribers at the same time and must also allow the issuer to respond to the rating within a specified timeline, which will be included in the report as an addendum.

In India, ESG ratings, or scores, are provided by independent firms such as MSCI, Sustainalytics and Morningstar. For example, with respect to the MSCI ESG scores, companies attaining AA or AAA ratings are recognised as ESG risk management leaders. On the other hand, Morningstar's ESG score quantifies ESG risks on a scale from 1 to 50, where 1 represents the lowest risk while 50 is the highest. Morningstar also provides detailed scores for ESG factors.

Sustainalytics ESG Risk Ratings

Idiosyncratic ESG Issues

Event Category 4 & 5

Material ESG Issues

Corporate Governance

Quant View
- Structured data*
- Incidents data

Corporate View
- GRIC4 materiality matrices

Expert View
- Industry expertise
- SABS insights

Model Scores for Subindustry Exposure

- Exposure assesment of ESG issues
- Identifying 'material ESG issues'

Beta Signals

Product & Production
- Derived Beta indicators
- Build for purpose Beta indicators

Financials
- Assessment of relative financial strength
- Based on third-party provided metrics

Events
- Events (relative frequency & severity)
- Significant events adjustments (cat 4 & 5)

Geographic
- Country Risk
- Headquarters, Revenues and Assets

+

Qualitative Overlay
- Capture additional factors
- Adjust for factor biases

+

Correction Factor
- Assure average beta of 1 at subindustry level

In India, ESG ratings, or scores, are provided by independent firms such as MSCI, Sustainalytics and Morningstar. For example, with respect to the MSCI ESG scores, companies attaining AA or AAA ratings are recognised as ESG risk management leaders.

4. ESG in Investment

The three pillars of ESG are closely linked to the concept of responsible investment. Socially Responsible Investing (SRI) was already a popular concept in the late 20th century, providing investors a parameter for investing in ethically responsible companies. ESG is now gaining traction as a broad framework for assessing corporate performance and claims a significant proportion of the investment market.

Individual investors today are more conscious about investing based on ethical parameters, forcing companies to get more serious about improving their ESG scores or ratings. As ESG reporting frameworks become more standardized across the world, an increasing number of companies are disclosing ESG information and implementing more responsible policies.

4.1. Types of ESG Financial Instruments

Investors that are conscious about investing in companies that are responsible about their ESG practices may choose one of the following options:

- ESG-compliant stocks, i.e., a direct investment in shares in companies that comply with the ESG regulations and disclosure their sustainable practices and social initiatives on their websites.
- ESG Funds, i.e. mutual funds that offer ESG funds under diversified ESG portfolios, allowing investors to select high-rated ESG funds, ensuring a straightforward and secure investment approach.
- Exchange-Traded Funds (ETFs), which are traded on the stock market and which pool funds from numerous investors to buy various tradable financial assets. ESG ETFs are focused on ethical investments and exclude sectors such as tobacco, weapons, and adult entertainment.
- ESG Index Funds track specific ESG indices, for example, the Nifty 100 ESG Index, Nifty 100 Enhanced ESG Index, Nifty 100 ESG Sectors Leaders and S&P BSE 100 ESG Index. These index funds offer investors a benchmark for ESG performance in the market.
- Green bonds are issued to finance environmental or climate change projects. Other ESG bonds include social corporate bonds, climate bonds, sustainability bonds, and sustainability-linked bonds. These and similar types of debt instruments are increasingly becoming a significant component of the ESG finance market.

4.2. Snapshot of the ESG Market

According to a 2024 report by Morgan Stanley's Institute for Sustainable Investing, investments in sustainable funds hit USD 3.5 trillion in assets under management (AUM) despite slowing inflows, up by 3.9% from 2023. This represents a 7% of total global AUM. Of the total inflows in the ESG market, Europe is the largest segment with 84% of ESG assets under management, as per an October 2024 report by Morningstar.

According to S&P Global, the annual issuance of all green and sustainable bonds is projected to hit USD 1.05 trillion in 2024, up from USD 0.98 trillion in 2023, representing almost 14% of the global bonds market.

As per Fintech Futures, the ESG Finance Market is estimated at USD 7.02 trillion in 2024, and is expected to reach USD 11.33 trillion by 2029, growing at a CAGR of 10.04% during the forecast period, whereas Grand View Research estimated the ESG investing market at USD 25.10 trillion in 2023, projected to grow at a CAGR of 18.8% from 2024 to 2030.

The market disruption and uncertainty caused by the COVID-19 pandemic also encouraged investment in sustainable companies and a greater push for companies to improve their ESG practices. Further, the global regulatory pressure on ESG disclosures is fuelling the need for ESG consulting services such as auditing services, analytical services, advisory services, etc. The global ESG consulting market is projected to reach USD 23.39 billion by 2030, showing a CAGR of 15.8% between 2023 and 2030, according to Metastat Insights. In comparison, India's ESG consulting market is projected to increase from USD 255.21 million in 2022 at a CAGR of 7.42% until 2030 as per research by UnivDatos. The transition reflects a growing recognition of corporate responsibility and a regulatory environment increasingly mandating transparency in ESG reporting.

Sustainable investing or ESG investing is being widely promoted by large companies around the world. Some notable trends in the ESG investing market include:

- As per Morningstar research, 80% of blend equity funds invested sustainably outperform traditional funds over a period of 10 years. Further, 77% of ESG funds that existed in 2010 have survived as compared to 46% of traditional funds.

- According to a 2023 Sustainability Megatrends Report by Cushman & Wakefield:
  - A 2023 survey by Capital Group reported that the ESG adoption rate by investment professionals reached 90% globally.
  - 60% of global investors report that ESG investing leads to higher performance yields.
  - 78% of investors were willing to pay higher fees for ESG funds.

4.3. ESG Investing in India

Although India is still a developing country and ESG awareness is still slow, the regulatory norms and business advantages of ESG for value creation are incentivising many companies to begin ESG reporting in India. During the period 2020 and 2022, voluntary ESG reporting in India increased by 160%, according to CareEdge Research. In July 2022, Tata Consultancy Services launched its ESG Integration Solution on the Amazon Web Services (AWS) platform to help financial institutions measure the impact of environmental, social, and governance (ESG) factors in their investment analysis, including non-financial data from leading data sources.

In the FY2022-23 budget, India announced plans to issue sovereign green bonds to finance public sector initiatives aimed at reducing carbon intensity. The sovereign green bonds are aligned with the Green Bond Principles (GBP) which are regularly updated by the International Capital Market Association. In January 2023, India issued the first tranche of its first sovereign green bond worth INR 80 billion.

According to IBEF, between 2012 and 2020, India introduced six ESG funds, and as of 2024, there are 11 sustainable investment funds in the country. The total AUM of ESG funds has increased from USD 331.4 million in 2020 to USD 1176.6 million by 3 March 2024, of which USD 660.2 million in AUM is represented by the SBI Magnum Equity ESG Fund.

With increasing capital inflows in global ESG funds, stock exchanges have also introduced different indices to track the growth, for example, the Dow Jones Sustainability Index, Bloomberg ESG data, and the MSCI ESG Indices. In India there are 4 such indices, namely the S&P BSE 100 ESG Index, Nifty 100 ESG Index, Nifty 100 Enhanced ESG Index, and Nifty 100 ESG Sector Leaders Index.

4.4. The Pros and Cons of ESG Investing

The Advantages of ESG Investing

The increased disclosure and compliance requirements globally around ESG ensure that investors are aligning their investments with individual preferences for sustainability and can invest in companies that are well-governed, and which have responsible and sustainable practices. It also ensures that investors are not falling for greenwashing or practices of using ESG performance as a marketing gimmick.

The global regulatory pressure and demands for transparent disclosures also provides investors with reliable data on how the company is performing on financial as well as non-financial metrics. For example, the EU Sustainable Finance Disclosure Regulation involves new disclosure requirements for funds, which are placed into different categories depending on their focus on sustainability.

Studies done post the COVID-19 pandemic have shown that companies with better ESG ratings outperformed their peers with lower ratings and also provided higher average annual returns. Such companies perform better financially over the long run because they manage risks better than their peers. A 2022 MIT study on the economic impact of ESG ratings, found that the stock returns of a company are directly proportional to its ESG score, which is the reason for many large investment funds to target companies with good ESG scores. When the rating increases, the stock returns showed an increase within 22 months after the change.

Risks of ESG Investing

The obvious disadvantage of ESG investing is that the pool of suitable companies and funds with good ESG metrics is small, thus narrowing the investment possibilities. Further, a majority of ESG funds need active management, which is more expensive, risky, and inconsistent. The performance of ESG funds is also sector specific and certain sectors are bound to perform better than others on ESG metrics. For example, an environmentally conscious investor cannot invest in sectors such as energy or oil.

In addition, ESG Rating Provider (ERPs) often use varying metrics to calculate ESG scores. The ERP market is often unregulated and the methodologies used are subjective and lack transparency. Global regulations are being put in place to make ESG ratings more globally comparable.

The ESG market is also subject to political pressure. Traditional investors are likely to prefer companies that prioritise financial profitability over sustainability, especially under pressure from market forces. Additionally, sustainable products and services are typically more expensive than traditional products owing to responsible practices such as local sourcing, ethical supply chain practices, etc.

Although India is still a developing country and ESG awareness is still slow, the regulatory norms and business advantages of ESG for value creation are incentivising many companies to begin ESG reporting in India.

5. ESG Challenges and Controversies

5.1. Challenges of ESG Implementation

Greenwashing

Greenwashing refers to the practice of making misleading or exaggerated claims about a company's environmental or social performance. This involves tactics such as using descriptive words in advertising such as "eco-friendly", "green", or "conscious", or making claims that a company is on track to achieve net-zero emissions without having any specific plan in place to achieve this goal. Companies may engage in greenwashing to enhance their reputation and attract investors, or as a marketing tool. Such claims can negatively affect investors and undermine the credibility of ESG. In general, the social (S) and governance (G) pillars of ESG, being subjective criteria, are more subject to greenwashing.

ESG Preparedness and Compliance Burdens

The overall regulatory ESG framework is complex and requires heavy compliances, which most companies are not as yet equipped to provide. As per a Deloitte 2023 survey, only 27% of Indian organisations felt adequately equipped to meet their ESG strategy and compliance requirements. It is also resource intensive and expensive to integrate ESG into company practices and then collate the data, resulting in a need for efficient data management and ESG software. Data inadequacy is also a challenge for smaller companies, particularly with respect to value chain disclosure, scope 3 emissions, etc. There is also a need, particularly in Inda, for skilled ESG professionals and consultants to provide advisory and consultancy services during this transition.

Lack of Standardization in ESG Scores and Metrics

At present, there is no set of universal metrics or standards, and therefore, the ESG score may vary based on the methodology used by the ratings agency, the specific industry / sector, and the geographical location. The lack of a universal standard for ESG ratings makes it difficult for investors to compare companies and make informed decisions. Different regulatory frameworks also provide diverse approaches. Further, some ERPs may provide other services such as consulting or data analytics, which can compromise the independence and objectivity of their ratings. Many ERPs do not disclose their methodologies in detail leading to a lack of transparency which can erode trust in ESG ratings.

In 2024, BlackRock, the world's largest asset manager with more than USD 10 trillion under management, historically committed to ESG investing, rebranded to 'transition investing' following political pressure and fears of greenwashing.

5.2. ESG Controversies

This section covers a few examples where ESG malpractices dealt a blow to businesses, investors, and the planet.

- **The Volkswagen Emissions Scandal, 2015**
  In 2015, Volkswagen was found to have programmed turbocharged direct injection (TDI) diesel engines to activate their emissions controls only during laboratory emissions testing, which caused the vehicles' NOx output to meet US standards during regulatory testing. However, the vehicles emitted up to 40 times more NOx in real-world driving. Volkswagen was fined to the tune of USD 30 billion in fines and settlements. The scandal raised awareness regarding high levels of pollution emitted by diesel vehicles and highlighted the need for more stringent regulatory measures and independent verification of ESG data.

- **Misleading advertising**
  In 2020, Eni, an Italian oil company, was fined EUR 5 million for promoting a green diesel fuel which was found to be made primarily from fossil fuels, with a small percentage of palm oil.

- **Recyclability claims**
  In 2023, Nestlé faced accusations of greenwashing for overstating the recyclability of its packaging. While the company marketed its products as environmentally friendly, investigations revealed that a significant portion of the packaging was not actually recyclable due to a lack of infrastructure in many regions. A similar case also occurred with Coca-Cola, which is one of the world's largest producers of plastic waste.

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6. Global ESG Regulation and Tax Policies

According to a report by Gartner, an American research firm, broad-based ESG reporting requirements will be in place around the world by 2025. Governments worldwide are increasingly incorporating ESG considerations into their tax policies to incentivize sustainable business practices and accelerate the transition to a low-carbon economy. The World Economic Forum and the International Business Council (IBC) encouraged large global companies in the IBC (nearly 130) to adopt ESG standards for their 2021 reporting.

In addition to the top 5 global ESG frameworks and standards (covered in Section 2 above), here are some important ESG regulations and global best practices:

European Union (EU)

The EU is at the forefront of ESG regulation, aiming to create a sustainable finance system and standardize ESG disclosures. The key regulations include:

- **Sustainable Finance Disclosure Regulation (SFDR)**
  The regulation mandates financial market participants and asset managers to disclose how they integrate sustainability risks into their investment decisions and provide information on the ESG metrics of their financial products. The SFDR has been mandatory since 1 January 2023.

- **Corporate Sustainability Reporting Directive (CSRD)**
  Large companies and listed companies are must disclose information on social and environmental risks, and on the impact of their activities on people and the environment. The report must be based on the European Sustainability Reporting Standards (ESRS). Reporting begins from 2024.

- **Taxonomy Regulation**
  The EU Taxonomy regulation establishes a classification system for sustainable economic activities, providing clarity on what constitutes a "green" investment. This regulation helps the EU scale up on sustainable investments and meet its net zero targets. From 1 January 2023, large companies are required to publicly disclose the extent to which their turnover fulfils the EU Taxonomy criteria on what is considered a “green” or “sustainable” economic activity.

- **Greenwashing Directive**
  The EU's proposed Green Claims Directive aims to combat greenwashing by setting strict requirements for environmental claims and promoting greater transparency in ESG reporting. This directive will require companies to substantiate their environmental claims with robust evidence and ensure that these claims are clear, accurate, and not misleading. The directive is scheduled for implementation by February 2026.

- **Norway**
  In general, Scandinavian nations have advanced in relation to green initiatives, sustainable financial institutions and diversified corporate sector, Norway, in particular, has the world's largest sovereign wealth fund, the Norway's Government Pension Fund Global. The fund has implemented strict ethical guidelines for its investments, and actively engages with companies to improve their ESG performance. In 2024, the sovereign wealth fund valued USD 1.6. trillion.

United States

- **SEC's Proposed Climate Disclosure Rule**
  The proposed rule by the Securities and Exchange Commission (SEC) focuses on ESG disclosures, specifically, scope 1 and 2 emissions, climate-related risks and other ESG factors.

- **EPA Regulations**
  The Environmental Protection Agency (EPA) enforces several regulations impacting ESG reporting and practices, such as the Clean Air Act and Clean Water Act or the Greenhouse Gas Reporting Program (GHGRP).

- **California Laws**
  Voluntary Markets Disclosure Act applies to entities marketing or selling voluntary carbon offsets. Other acts also apply such as the Climate Corporate Data Accountability Act and the Climate-Related Financial Risk Act.

United Kingdom

- **Mandatory Climate-Related Financial Disclosures**
  The UK was the first G20 country to mandate ESG disclosures in line with the Task Force on Climate-related Financial Disclosures (TCFD). The disclosures apply to large companies with over GBP 500 million in turnover and over 500 employees.

- **Streamlined Energy and Carbon Reporting (SECR)**
  Large companies and all listed companies must report their energy consumption and carbon emission data in their annual reports.

- **Others**
  Mandatory greenhouse gas (GHG) reporting for publicly traded companies, the Energy Saving Opportunity Scheme (ESOS), Climate Change Agreements (CCA) Scheme, and the UK Emissions Trading Scheme (ETS).

Canada

The Canadian Sustainability Standards Board (CSSB) has proposed the Canadian Sustainability Disclosure Standards (CSDS) 1 and 2 which requires companies to voluntarily disclose information about climate-related risks and opportunities under a materiality threshold.

Japan

Since January 2023, Japan has mandated all listed companies and certain other companies to disclose sustainability-related information in accordance with the TCFD pillars. This regulation is proposed to be expanded.

Tax Laws and Potential Tax Incentives Related to ESG

Governments worldwide are increasingly incorporating ESG considerations into their tax policies to incentivize sustainable business practices and accelerate the transition to a low-carbon economy. Below is a comparative analysis of tax policies in different countries, with a focus on developed nations:

Carbon Pricing Mechanisms

Carbon pricing mechanisms put a price on greenhouse gas emissions by encouraging investment in cleaner technologies.

- **UK:** A carbon price floor is set for the minimum price of carbon emissions from the power sector, specifically, fossil fuels used in electricity generation.
- **EU:** The EU Emissions Trading System (EU ETS) is the world's first and largest carbon market. It operates as a cap-and-trade system, setting a limit on total greenhouse gas emissions from various sectors, including power generation, industrial installations, and aviation.

Carbon and Other Taxes

Many governments are increasing taxes and penalties on polluting industries. Carbon tax is commonly levied on carbon content of fossil fuels, such as coal, oil, and natural gas. Sweden has one of the highest carbon tax rates in the world, at around USD 137 per tonne of CO2. Taxes can also be levied on the emission of specific pollutants, or on activities with a negative environmental impact in the areas of mining, waste disposal, etc. Some countries levy excuse duties on products that are harmful to the environment, such as plastic bags, disposable cups, or certain types of vehicles.

Tax Incentives

Many countries offer tax incentives such as tax credits, deductions, and accelerated depreciation, to encourage investment in renewable energy sources like solar, wind, and hydropower, as well as clean technologies like energy storage and carbon capture. For example in India, solar power plants are exempt from tax. The government also incentivises green investing, i.e., investments in certain long-term green bonds, through Section 80 CCF of the Act. Other tax incentives relating to ESG issues under the Indian Income Tax Act include the children education allowance, EV loans, and additional depreciation for energy saving devices.

According to a report by Gartner, an American research firm, broad-based ESG reporting requirements will be in place around the world by 2025. Governments worldwide are increasingly incorporating ESG considerations into their tax policies to incentivize sustainable business practices and accelerate the transition to a low-carbon economy.

7. Looking Ahead at ESG

7.1. Analysis of India's Current ESG Framework

During the period 2020 and 2022, voluntary ESG reporting in India increased by 160%, according to CareEdge Research. The research further provides the following insights:

- Nearly 50% of the companies in the Energy and Utilities sector reported on ESG parameters in FY 2022-23.
- Companies in the Materials sector (heavy emitting industries such as Steel, Cement, and Mining) have shown an improvement of 20% in the last three fiscal years.
- Companies that have regularly disclosed ESG data saw their scores improve by almost 15% over the past 3 fiscal years.

The BRSR, which has replaced the earlier BRR, is a standardised reporting format that applies to all sectors and requires quantitative as well as qualitative disclosures, thus easing comparability and aligning closely with global frameworks and standards. The requirements for mandatory assurance for BRSR Core and value chain disclosures help stakeholders such as regulators, investors, customers, and employees obtain a reliable understanding of the ESG commitments of the company, and an estimate of the overall stability and growth of the business. Mandatory assurance from an independent and impartial agency improves the credibility and reliability of the process and works well to combat greenwashing.

Further, the value chain disclosure requirement aims to draw in companies beyond the mandated reporting entities into the ESG disclosure ambit, since a company's upstream and downstream value chain extends to its direct as well as indirect operations, such as suppliers, distributors, operators, and other value chain partners. The value chain disclosure attempts to measure the ESG risks of value chain partners, including unlisted companies and SMEs, thereby indirectly creating ESG awareness and impact beyond the mandated reporting entities. It also incentivises companies to adopt sustainable practices and improve their sourcing strategies.

SEBI's BRSR framework also allows companies time and flexibility to improve their sustainability policies, keeping in mind that India is a developing country, and not all companies are yet equipped to tackle compliance on this scale. However, reporting entities as well as companies undertaking ESG reporting on a voluntary basis benefit from deeper insights based on ESG metrics such as better understanding of non-financial risks and opportunities and a boost to their public image.

There are, however, a few challenges since ESG reporting is still in a nascent stage in India. In particular, companies are facing the burden of increased compliances, coupled with the fact that there are no detailed guidelines yet for each parameter of reporting under the BRSR. Further, large companies which have operations scattered across multiple geographical locations and sectors may find it especially challenging to consolidate raw data across departments and applying it across the nine ESG principles, leading to a time-consuming and resource-intensive exercise. On the other hand, the BRSR reporting, especially disclosures on a comply-or-explain basis, allow companies to demonstrate progress on ESG metrics over time.

The inclusion of value chain disclosures also puts additional burden on companies, especially those that work with smaller and medium enterprises (SMEs), which are typically not up to date on sustainability practices. This issue can be best solved via a collaborative effort within the sector so that all value chain partners (upstream and downstream) can progress on their ESG metrics. The value chain disclosure requirement also poses significant risk to companies, for example, any misleading information provided by a value chain partner may not only result in a breach of contract but also tarnish the listed company's ESG rating and reputation. Transparency becomes a key point here, and companies as well as value chain partners must become whistleblowers and offer information on assumptions or suspected unethical practices, if any.

7.2. Addressing India's ESG Challenges

The regulatory pressure on ESG disclosures is fuelling the need for ESG consulting services such as auditing services, analytical services, advisory services, etc. Many firms in India offer ESG management software which can help companies manage their compliances and consolidate data efficiently for reporting purposes. Many companies and audit firms are also offering education and training programs on ESG to help equip companies, especially top management, with a better understanding of the ESG framework and the BRSR requirements.

In order to address these challenges, SEBI, with its proactive approach in establishing a robust ESG framework, and the Institute of Chartered Accountants of India (ICAI), have together been active in boosting India's ESG efforts. SEBI's BRSR Core assurance requirements made India the first nation to introduce reasonable assurance in non-financial disclosures.

ICAI has issued the Standard on Sustainability Assurance Engagements (SSAE) 3000, which provides a framework for assurance engagements on an entity's sustainability information. The SSAE 3000 is mandatory for assurance reports covering financial periods ending on or after 31 March 2024, but may be applied voluntarily for periods ending on 31 March 2024. ICAI also constituted the Sustainability Reporting Standards Board (SRSB) to formulate comprehensive and globally comparable standards for measuring and disclosing non-financial information about a company's progress towards the UN SGDs.

In 2022, the SRSB developed 16 Social Audit Standards (SAS) on each of the thematic areas for social audit engagements laid down by SEBI in the framework for social stock exchange in India.

The Indian government is also focusing its efforts on achieving its net zero targets and the key milestones by 2030. India's national score for the 2023-24 SDG Index (NITI Aayog's National Indicator Framework (NIF)) was 71, up from 66 in 2020-21, indicating significant progress in areas like poverty eradication and climate action.

Foreign direct investment (FDI) in India's renewable energy sector surged to USD 2.5 billion in FY 2022-23 (up by 56% from the previous year). India's solid waste management market was valued at USD 32.09 billion in 2023 and is projected to reach USD 35.87 billion by 2028, with a 2.25% CAGR, according to India Briefing. At the Indo-Pacific Economic Framework for Prosperity (IPEF) meeting in June 2024 in Singapore, investment opportunities in India of over USD 500 billion were highlighted by 2030, particularly in clean energy, i.e., renewables, green hydrogen, and EV infrastructure.

India is making great strides towards reducing its carbon emissions and focusing on renewable energy sources, and companies are increasingly aware and transparent about their efforts in disclosure their ESG practices. With the collaboration of all stakeholders, India has the potential to not only strengthen its ESG framework but also emerge as a global leader in sustainable business practices.

"The environment is where we all meet; where we all have a mutual interest; it is one thing that we all share."

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