FICCI ESG SUMMIT 2023

Creating Value Through ESG

The Experts' Voice

A compendium of articles

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Foreword

Organisations worldwide are developing and implementing environmental, social and governance strategies to build sustainable businesses. The ESG agenda has gained significant prominence and ESG factors have taken centre-stage in business strategy, with increasing understanding of value-creation through ESG and long-term sustainable growth. With the growing realisation that the cost of inaction exceeds the cost of action, it can be rightly said that ESG has become a critical priority for companies. Investors, too, are increasingly rewarding companies which are seen as being sustainable and responsible. This is reflected in the increase in total assets and inflows in sustainable funds globally.

India's 2070 net zero goal represents a multi-trillion, multi-decade investment opportunity with unprecedented volumes of investment required. On the backing of significant measures being taken by the Government and Regulators towards fostering the growth of green finance, India offers an attractive destination for sustainable capital.

FICCI has been engaging with the Government, Regulators, institutional Investors – both global & domestic, and industry to unlock the flow of sustainable finance. The second edition of FICCI ESG Summit aims to accelerate progress towards strengthening the enabling environment.

On this occasion, we are pleased to present The Experts' Voice, a compendium of articles contributed by members of FICCI National Committee on ESG. In line with the theme of the summit – Creating Value Through ESG - the publication presents thoughts on the imperative need to mainstream ESG considerations for long term value creation and also for India to accomplish its ambitious climate action program envisioned under the 'Panchamrit'. Ranging from diverse topics such as sustainable finance at IFSC, role of financial institutions in supporting India's transition to a sustainable future, climate change, relevance of social metrics as integral part of business strategy, disclosures and reporting, how organisations are integrating ESG into their operations, these articles capture the recent trends in the domain and their positive impact, imploring stakeholders to join hands for the ESG mission.

We would also like to take this opportunity to thank the Government and Regulators for their constant support to FICCI's initiatives in this space. We express our appreciation for the members of FICCI National Committee on ESG who have contributed their valuable time and inputs for the initiatives of the committee throughout the year. A special thanks to all the members who have contributed to this compendium. In keeping with the ethos of ESG, we are releasing this compendium electronically.

Imtaiyazur Rahman
Chair

Amit Tandon
Co-Chair

FICCI National Committee on ESG

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GIFT IFSC: Paving a Path for Sustainable Development

IFSCA Sustainable Finance Division

In the famous Brundlant Report (1987), Sustainable development is defined as *"Development that meets the needs of the present without compromising the ability of future generations to meet their own needs"*. This necessitates a collective alignment of all stakeholders, including governments, corporations, and individuals, across the world, to aim for an equilibrium state of environmentally and socially responsible development.

Towards this objective, the Paris Agreement is a path-breaking initiative by adhering to the principle of "common but differentiated responsibilities" for all countries. This landmark agreement paves the way for all the parties to work collectively towards reducing GHG emissions, addressing climate change, and protecting the planet.

India has shown global leadership in climate action through the announcement of 'Panchamrit' strategy at CoP26 and pioneering initiatives such as Mission LiFE (Lifestyle for Environment). The Indian corporates and business communities have to play a crucial role in India's efforts towards a low-carbon economy. As finance exerts a profound influence on corporate decision-making, 'Sustainable Finance' is evolving as a key enabler for corporates to incorporate environmental and social goals into their business strategies. Estimates by Council of Energy, Environment, and Water (CEEW) suggest that investments to the tune of at least USD 10 Trillion would be required to achieve the net-zero ambition of India by 2070. This necessitates significant global sustainable capital flows into India.

> ***"I want GIFT IFSC to be a gateway to global debt and equity capital for sustainable and climate projects."***
>
> *- Hon'ble Prime Minister, Shri Narendra Modi*

GIFT IFSC is ideally placed to tap global capital flows to meet India's sustainable development needs. In this regard, IFSCA, as the unified regulator at IFSC, has taken significant initiatives to create a conducive regulatory environment based on international best practices for sustainable capital flows into the Global South, particularly India.

ESG Bonds

Globally, the growth of ESG-labelled bonds has helped deepen and accelerate the development of sustainable capital markets. The cumulative amount of ESG-labelled bonds issued reached USD 3.8 trillion at the end of 2022, according to a recent World Bank report.

In order to encourage the growth of Green Bonds, Social Bonds, Sustainability Bonds and Sustainability-linked Bonds, IFSCA has specified the necessary regulatory framework aligned with globally accepted standards. The listing of more than USD 10 billion ESG-labelled debt securities on IFSC exchanges, as on date, showcases GIFT IFSC as a preferred platform for Indian corporates to raise sustainable capital.

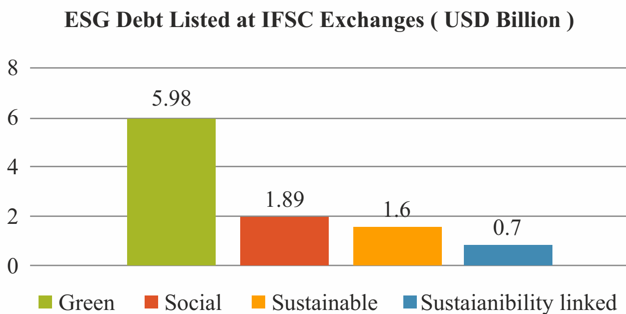


Figure: ESG-labelled Debt Listings at IFSC (in Billions), as on Sep 2023

ESG Funds

GIFT IFSC has emerged as one of the preferred centres for channelizing funds from overseas investors into India through various funds such as Private Equity funds, Debt Funds, Venture Capital Funds, Real Estate funds, etc. With the objective to promote ESG funds and drive capital flows towards green and sustainable projects in India, IFSCA has issued the regulatory framework covering requirements relating to initial and periodic disclosures, ongoing monitoring, and performance evaluation. Considering the transition needs of India, the framework issued by IFSCA enables strategies such as Transition Funds and Engagement Funds. The first ESG engagement fund has already begun its journey at GIFT IFSC.

Further, in order to encourage Fund Management Entities (FMEs) to incorporate sustainability-related risks and opportunities in their investment decision making, IFSCA has mandated the large FMEs (AUM above USD 3 billion) to incorporate additional sustainability reporting requirements based on global standards.

Sustainable Lending

Green financing and sustainable banking are increasingly becoming important for the economy to transition towards a sustainable and resilient economy. IFSCA has issued the regulatory framework mandating the banking units at GIFT IFSC to develop a Board-approved policy aligned with international principles/frameworks for green, social, sustainable, or sustainability-linked lending. The banking units are mandated to allocate at least 5% of their gross loans and advances towards green, social, sustainable, or sustainability-linked sectors/facilities, starting from April 01, 2023. This initiative is aimed at encouraging the banks to have a greater focus on sustainable lending and bridge the funding gap in this area.

New Initiatives

In addition to these initiatives, IFSCA is also

working on developing an international Voluntary Carbon Market (VCM) ecosystem in IFSC. According to a report of McKinsey, the potential of VCM would be USD 50 Billion by 2030.[1] India, being one of the largest suppliers of carbon credits in VCM, a regulated market would provide a better price discovery mechanism, in addition to addressing the quality, transparency, and integrity of carbon markets.

IFSCA is also working towards creating an enabling framework for various “Transition Finance” instruments. The achievement of the Paris Agreement targets requires decarbonisation of the entire economy including hard-to-abate sectors. The existing regulatory frameworks, which is largely oriented towards green “use of proceeds”, make it difficult for industries like steel and cement to obtain affordable capital which finance their “brown to green” journey. IFSCA through its “Transition Finance” framework intends to fill this gap.

GIFT IFSC – Emerging as a new global hub for Sustainable Finance

GIFT IFSC has a well-developed financial ecosystem, world-class infrastructure, and best-in-class regulatory environment. Further, the emphasis on ease of doing business, supported by cost-competitive advantages and tax incentives offers unique advantages to Indian corporates for financing their journey towards sustainability through GIFT IFSC. IFSCA aims to develop IFSC as a new global hub for sustainable finance and thereby playing a key role in channelizing funds for India and other emerging economies to meet their net-zero ambitions.

[1] *https://www.mckinsey.com/capabilities/sustainability/our-insights/a-blueprint-for-scaling-voluntary-carbon-markets-to-meet-the-climate-challenge*

Investing in ESG: Balancing Profits with Principles

Imtaiyazur Rahman, *Chairman, FICCI ESG Committee and MD & CEO,*
UTI Asset Management Co Ltd

In our changing world, issues like climate change, pandemic, extreme weather events and geopolitical developments have propelled Environmental, Social, and Governance (ESG) considerations to the forefront for businesses and investors. ESG investing isn't a trend; but a global movement gaining traction, as investors seek to align their finances with their values for a more sustainable and equitable future.

The integration of ESG factors into investment decisions has firmly taken root globally. This goes beyond financial gains and involves a commitment to creating a positive impact on environment and society. Aligning businesses with sustainable practices and addressing social and governance issues unlocks long-term opportunities. ESG is a strategic necessity that can shape a more sustainable future.

In the context of investments, sustainable businesses tend to outperform their peers in the long run. Beyond financial rewards, integrating ESG principles offers a competitive advantage. It allows us to address environmental concerns, instil social responsibility in operations, and strengthen corporate governance. Consequently, businesses meeting ESG criteria are seen as less risky and better positioned for long-term success in today's business landscape.

How to surmount challenges ahead?

1. **Ethics & Integrity:** Governance failures have the potential to inflict financial losses, environmental damage, and erode trust. Overcoming this challenge necessitates the implementation of sustainable changes that extend beyond mere financial success. Corporate governance is pivotal in this endeavour. Collaborative efforts between the board and management, driven by a shared objective and comprehensive plan, take centre stage.

   Interestingly, a study conducted by EY offers a compelling insight: Companies with diverse boards tend to experience fewer instances of corporate fraud. This emphasizes the role that governance and diversity play in upholding ethical conduct within organizations. It's a testament to the tangible benefits that result from embracing diversity and fostering a culture of ethical integrity.

2. **Fragmented Data:** ESG data, now central to business, regulation, and investment decisions, faces a challenge due to its fragmented quality and availability across

sectors. This variability impedes effective measurement and comparison of ESG performance.

To navigate this, businesses are increasingly turning to artificial intelligence (AI) and data analytics platforms. These tools enable the quantification and assessment of ESG performance, identifying risks and opportunities. Embracing these advanced technologies unlocks new horizons for sustainable strategies and reporting.

3. **Regulatory Frameworks:** In March 2023, SEBI approved new ESG regulations for listed companies. These rules mandate disclosure and assurance on key sustainability metrics, initially for the top 150 listed entities from FY2024, expanding to the top 1,000 by FY2027. ESG Rating Providers must adapt to India's context and offer 'Core ESG Ratings' based on these metrics.

   These regulations are expected to empower asset managers with improved ESG data, leading to better risk-adjusted sustainable returns. Key factors include enhanced ESG disclosures, better data quality, and increased transparency.

   As of June 2023, 190 listed companies have adopted BRSR reporting. Expectations are that more companies will embrace BRSR reporting in the future.

4. **Short-Termism:** The pressure to deliver immediate financial results often obscures the integration of crucial long-term sustainability considerations. To combat this challenge, businesses must adopt a steadfast commitment to their long-term vision.

   This entails setting clear ESG goals and ensuring effective communication of these objectives throughout the organization. It also requires a comprehensive approach, including employee education and training, the integration of ESG considerations into performance evaluations, and the incentivization of ESG alignment at all organizational levels. These concerted efforts foster a culture of sustainability and help maintain a resolute focus on the long-term horizon.

5. **Energy Transition:** Amid the global shift toward a low-carbon future, businesses and investors are increasingly scrutinizing sectors, countries, and regions with the resilience and competitiveness to thrive. Resilience will be gauged by the capacity of sustainable portfolios to weather the transition to renewable energy and withstand the impacts of rising global temperatures and extreme weather events.

6. **Net Zero:** Achieving net-zero emissions requires a comprehensive plan, especially in the energy industry, the largest contributor to greenhouse gas emissions. Shifting to clean, renewable energy like hydropower, solar, and wind is essential but demands a major overhaul of energy infrastructure, including new grids and storage tech.

Effective climate policies, such as carbon pricing, clean energy incentives, and fossil fuel subsidy phase-outs, are vital to drive investments in nature-based solutions, renewables, energy efficiency, and carbon capture. Implementing emissions caps and carbon taxes not only promotes emissions reduction but also funds sustainable solutions and renewables.

7. **Human Capital Management and DEI in Sustainability:** Organizations committed to sustainability must prioritize not only structural changes, training, and sustainability initiatives but also foster a culture that aligns with their goals. To achieve this, they should have an understanding of their existing culture, establish clear cultural objectives that support sustainability, and influence behaviours.

   Moreover, organizations should harmonize their Human Capital Management (HCM) practices with their ESG objectives. A comprehensive ESG strategy, as highlighted by a World Economic Forum analysis, necessitates a strong focus on human capital. This entails building an inclusive company culture, offering employee-centric benefits, ensuring equitable and transparent compensation, fostering open communication channels, and prioritizing workplace safety and fair working conditions.

8. **Combating Greenwashing:** Increasing awareness of overstated ESG claims is prompting heightened scrutiny from consumers, investors, and regulators. The consequences of greenwashing are severe and include reputational damage, and the potential for penalties and legal repercussions.

   It is essential for businesses to recognize that sustainability journeys are long-term endeavours. Rather than exaggerating achievements, businesses should focus on enhancing transparency regarding their actions. Demonstrating how they are translating ambition into practice and substantiating ESG claims through credible reporting frameworks and third-party verification should be the priority.

In anticipation of the expanding landscape of ESG disclosures and reporting standards within Indian corporate circles, business need to encompass a range of strategies, including ESG integration, thematic investments, or targeted initiatives aimed at achieving specific and measurable societal impacts. This will help to bring the desired benefits to us and the future generations.

The views expressed are author's own views and not necessarily those of UTI Asset Management Company Limited. The views are not an investment advice and investors should obtain their own independent advice before taking a decision to invest in any asset class or instruments.

Mutual fund investments are subject to market risk, read all scheme related documents carefully.

Regulators will drive the ESG agenda

Amit Tandon, *Co-chair, FICCI ESG Committee and Founder & MD, IiAS*

With a 10% shareholding threshold to propose resolutions linked to climate or otherwise, investors have a limited ability to set the ESG agenda. They will need to engage with companies, seeking disclosures, targets, and transition strategies on ESG linked issues while the agenda is set by the regulators.

The Securities and Exchange Board of India (SEBI) constituted ESG (- Environment, Social and Governance) committee submitted its report in February 2023. Navneet Munot of HDFC Asset Management chaired the committee (- disclosure, I was a member). Based on this report SEBI sought public comments on a comprehensive set of issues. First, the regulatory framework for ESG Disclosures by listed entities, second on ESG Ratings in the securities market and third ESG Investing by Mutual Funds. It separately invited comments on the regulatory framework for ESG Ratings Providers (ERPs). Based on the consultations and feedback, the SEBI Board on 29 March signed off on a regulatory framework enabling us to determine the direction its regulations will take.

SEBI's holistic approach focusing on the Disclosure-Rating-Investment trinity will benefit the market. Some key elements are described below, but readers should read the original (ERPs, BRSR and MF Disclosures).

Turning first to disclosures. SEBI made ESG reporting using the BRSR framework mandatory for the top-1000 listed companies from FY 2022-23 onwards. For FY 2021-22, it was voluntary. While companies have just begun reporting, a few issues need addressing.

There are several issues that are likely to be addressed regarding disclosures. The first being how relevant is the global ask. Global disclosures do not always resonate with what is seen as being critical either to Indian companies or to our economy. Asking for a 'racial equity audit to identify adverse impacts on non-white stakeholders' or 'asking companies in the financial sector to set policies ending or restricting financing fossil fuels,' are just two examples. Companies will have no reason to address the first and the second is at odds with our current national priorities.

There is then the issue of greenwashing, which is nothing but putting a spin to show that a company's activities have a greater positive environmental impact than they actually do. Greenwashing is likely to be addressed through seeking reasonable assurance on nine parameters, referred to as 'BRSR Core.' These nine parameters are reflective of India's unique ESG challenges.

The BRSR Core is expected to substantially facilitate this data capture. And as reasonable assurance can only be provided if there is clarity on parameters and their measure, these have been specified and such assurance has been made mandatory for the top 150 companies from 2023-24 expanding to 1000, in two steps, by 2026-27. For many entities, in addition to their own operations, the supply chain needs monitoring.

This proposed roadmap for enhancing BRSR disclosures, including assurance with a glide path is aimed at addressing the need for relevant, credible and comparable data, while keeping in mind the cost of compliance.

On ratings, the focus is on India-centric parameters and standards. In calling for a more standardized approach, the focus is on minimum specified criterion - although ERPs are free to add to these. As with almost all of SEBI's regulations, the emphasis here too is on disclosures of such ratings and the underlying rationale.

The third pillar are investors. Although less than US$ 1.5 billion of AUM invested in ESG-linked themes in our market, global estimates going as high as US$ 8 trillion, suggest that the Indian fund management industry is soon set to embrace this theme.

Funds can expect more disclosures around ESG, including engagement reporting. And in anticipation of a coming rush of funds, ESG Schemes are likely to be moved to a category of their own (-like large-mid-and-small cap) rather than a theme, allowing more stringent reporting.

The question to ask is, will SEBI and regulators continue guide companies on how to navigate the ESG waters? Do investors or stakeholders have a role?

In the US they believe they do. Shareholders here have already filed 542 shareholder resolutions on ESG issues this year, in line with 2022 which had a final total of 627. Contrary to what one might expect, such proposals are less common in continental Europe, partly because funds are less activist or unwilling dictate company strategy. This is also explained by the different regulatory thresholds for submitting shareholder proposals. Under SEC rules, this can vary from $2,000, $15,000, or $25,000, depending on the holding period. In Europe, this is higher, at 5% of the share capital, but member states may have other restrictions. For example, in Netherland such proposals need board approval.

ClientEarth, a registered environmental charity, has created two guides, for Europe and Asia, for regulations on climate-related shareholders resolutions. Cyril S. Shroff, Managing Partner, Anchal Dhir, Partner, and Richa Roy, Partner, of Cyril Amarchand Mangaldas; Umakanth Varottil, Associate Professor at the Faculty of Law, National University of Singapore contributed on the section on India.

The rules in India require 10% shareholders to propose a resolution - liked to climate or otherwise. Further climate and social matters do not typically fall within the types of matters that investors can ordinarily bring to vote. So, investors will engage with companies, seeking disclosures, targets, and transition strategies. Companies will do what they need to. But it will be the regulations that will drive the ESG agenda.

A modified version of this blog was published in Business Standard on 24 May 2023: https://www.business-standard.com/opinion/columns/regulators-will-drive-the-esg-agenda-123052301213_1.html

Digitisation: The pathway to optimising ESG disclosures and decarbonisation

Inderjeet Singh Ph.D., *Partner – Financial Advisory, Deloitte India*

As ESG practitioners and sustainability leaders, we understand the actions of our businesses and their subsequent impact on the local, as well as global, environment. One of our key objectives is to work with and drive other stakeholders within our organisation to have a definitive voice and commit to action on specific ESG goals. Being resolute in our intentions and actions is what will help propel us to find the right balance between our financial, social, and environmental priorities and achieve long-term success.

In my experience, ESG has gained prominence across geographies in the last decade, with countries like India picking up the pace at almost the same time, when the Business Responsibility Report (BRR) (based on the National Voluntary Guidelines (NVGs)) was introduced. The introduction of BRR gave Indian businesses a necessary nudge, to indicate that domestic regulations with greater objectivity were soon going to be the new normal. Later, the introduction of Business Responsibility and Sustainability Report (BRSR) retained the soul of the NVGs with a bit of recalibration through National Guidelines on Responsible Business Conduct (NGRBC). The top 1,000 companies are witnessing their first mandatory disclosure for the year 2022-23. To further improve upon the disclosure rigour, BRSR Core Assurance has been introduced in a manner that by FY 2026-27, the top 1,000 companies along with their supply chain partners data, to the extent of 75 percent coverage, is required to be included. To make the necessary shifts toward sustainable, cross-stakeholder value creation, we should collectively get better at understanding, measuring, and controlling the impact of our business operations on all our stakeholders.

Beyond the Indian regulations, larger businesses have obligations across geographies based on their respective business outreach. This may include, but will not be limited to, the collection of non-financial performance data from multiple locations, harmonisation, disclosure frequency and timelines, corroborating evidence for assurance, material traceability, and finally contribution to circularity. All these requirements have created an overwhelming environment. Further to this, the global ranking and rating requirements along with ESG targets assumed by companies have paved a pathway to digital and analytic tools as enablers for this new value system.

The deployment of the right digital platform will not just enable timely disclosures, but will also instigate readiness for business transformation, i.e., from profit to purpose. It is also possible that a single platform may not serve the entire set of requirements. Some of the important aspects that may require a deeper understanding of the needs are:

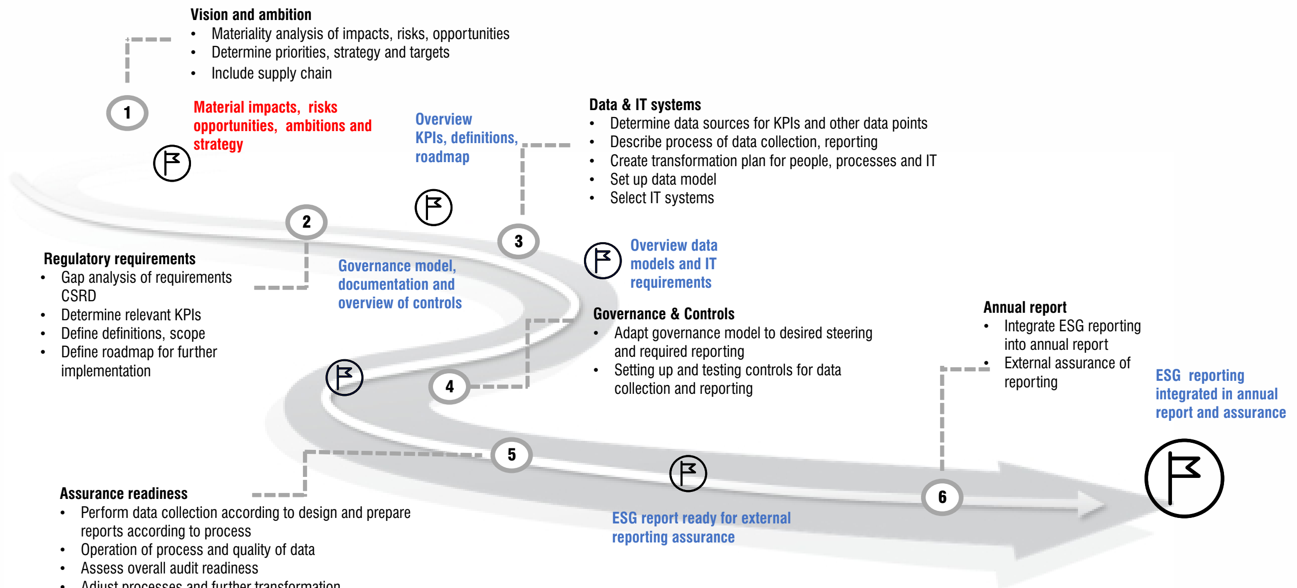
- ***Transactional requirements*** such as embedded emissions (one time requirement or continuous) depending upon the product type that is being produced. Emission reduction targets based on self-assumed targets under SBTi or compliance driven targets of Perform, Achieve, and Trade scheme (PAT).
- ***Operational requirements*** such as harmonised access to data lakes across geographies, including possible application of internal carbon pricing (ICP) on investment decisions.
- ***Multi-stakeholder view requirements*** such that expectations of investors as well as the downstream value chain partners are met, additionally disclosures made by peers along with KPIs of ranking and rating platforms are also taken care of.
- ***Restrictive compliance requirements*** such as green procurement policies, no additional deforestation policies etc. in B2B businesses.
- ***Assurance requirements*** both limited and reasonable depending upon business outreach for compliance to regulations such as supply chain risk assessment and contribution towards BRSR Core in India, and CSRD for EU businesses.
- ***Disclosure requirements*** such as alignment with Global Reporting Initiative (GRI), International Integrated Reporting Council (IIRC), Sustainability Accounting Standards Board (SASB) and the Task Force on Climate Related Financial Disclosures (TCFD), etc.

The most important ability of the tool will be to bring in intelligence and foresight through analytics, enabling decision makers to address issues ahead of time, such as timing to market for purchase of emission offsets, possible climate events, and their time to impact.

Once the platform(s) with the right capabilities has been identified, it is important to test it on:

- ***Transparency*** (analyse it with respect to your business ethics and governance policies)
- ***Traceability*** of information (capability to integrate documents and information, i.e., assurance readiness, as well as B2B data delivery to clients)
- ***Integrity*** (its ability to synchronise with data lakes and deliver consistent output across disclosure requirements, and if the platform can deliver on third-party data portals. such as EPR data linkage with CPCB portal)
- ***Customisable*** (ability to incorporate changes based on the changing ESG landscape and regulatory requirements)
- ***Portability*** (specifically for conglomerates, when different businesses operate on different platforms, data portability becomes critical to understand a group wide ESG dashboard)
- ***Certified*** (specific geographies have certain certification requirements for digital platforms, the same needs to be ensured for multi geography businesses)
- ***Automation*** (identifies outliers, reminds about non-compliance, provides an opportunity to review the input data, and generates reports along with the leaderboard)

ESG journey post digitisation



To summarise, the successful deployment of a digital platform can help establish a clear line of sight for internal and external stakeholders, ensuring due importance is given to key material issues, and providing an adequate impetus towards protecting shareholder value.

ESG in Healthcare

Karan Thakur, *Group Lead - Sustainability & ESG & Vice President - Public Affairs*
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The health sector has long been at the forefront of innovation that impacts humanity. From the development of drugs and vaccines to pathbreaking research on the causation of disease and its subsequent treatment have ensured that today we live longer and generally healthier lives. At the same time, the health sector has also been a torchbearer of progressive public policy that has wide ranging impact on human health.

The Covid-19 pandemic again provided an example of the sector's ingenuity, when effective vaccines against a novel virus were formulated, produced, and then administered on an unseen scale. Notwithstanding the continuing disparities and structural inequities that exist in the availability of quality health services the world over, the overriding zeal for innovation and improving the human condition is inherent in the sector. Given this stellar role that the sector has played, the post Covid world presents another challenge for the sector to demonstrate its inherent traits of progressivity and innovation.

Climate change and the health impact thereof, presents a clear and present danger to all of humanity. Pithily put, climate change will be the great (negative) health equalizer for all of humanity. With the impact of climate change not knowing political ideologies and sovereign borders, the impacts are being felt across the world – from the developing to the developed, from the emerging to the neglected. It is, therefore, more critical than ever before for the health sector to rise to address this crisis precipitously.

The impact that the sector itself is having on the climate crisis is well documented. As per estimates, the global health sector contributes to over 5% of all emissions. To put this to perspective, the global shipping sector contributes a rough equivalent. But nowhere are we seeking the type of action on decarbonization and emissions reduction in the health sector at the scale being done in the shipping sector.

At the same time, global and national policy headwinds are directionally clear in their call for action. A diverse set of stakeholders – Governments, international & multilateral organizations, communities, shareholders, and investors have all shifted focus towards the impact companies are having on the climate and society; and seeking answers along with compliance to norms. The rise of ESG is therefore not only a logical corollary to international treaties,

commitments, and impact of climate change on humans, it has also become a necessary imperative for all sectors.

The health sector had initially taken a more circumspect view towards ESG. This is now fast changing as the sector emerges from the Covid-19 pandemic. Companies, especially those that are listed, are fine tuning their ESG & Sustainability practices that move beyond patient care and outcomes as the central core of the ESG approach. Attunement towards the need for climate action, impact on communities, externalities impacting biodiversity, inclusive and diverse workforce and good ethical governance are all finding their way into the ESG construct.

As the organized, listed sector makes these changes, the need for action by the wider health sector needs to follow this pace. Regulatory changes through frameworks like the Business Responsibility & Sustainability Reporting (BRSR), compliance with environmental laws, labour regulations, and adherence to national commitments made under the Paris Agreement are all signals that healthcare organizations will need to create formal sustainability & ESG strategies. Apart from these, societal expectations from healthcare institutions are moving beyond treatment and outcomes, towards broader impacts that the sector is having on people's wellbeing. This *social license* to operate is therefore another key driver for the need to move progressively towards sustainability & ESG.

At the same time, the sector often finds itself unsure on how best to respond. With a multitude of standards, reporting principles, disclosure requirements and formats, what should be a progressive move often reduces itself to a check box exercise passed off to compliance departments to complete. The need for a radical shift in perspective is therefore critical. Health care organizations need to understand that sustainability & ESG need to become a core function of the operating milieu. This would need a 'whole of the organization' approach and not get parked at the doorstep of the CFO of the compliance department. Much like how quality healthcare is the responsibility of each healthcare worker in an organization, sustainability & ESG need a similar approach.

As a first step, the need to put in a formal governance structure cannot be underscored more. Sustainability & ESG needs to become a board-to-patient agenda. This will not only ensure an alignment of principles and shared purpose, but also of resources and assignments of targets and goals. A central team or individuals responsible to program manage the sustainability agenda will be critical to success as ESG covers a vast plethora of expectations, regulations, and compliances.

The second critical step is for a detailed materiality assessment of critical topics for the organization. Each sector and every organization have a range of topics that are material – both for the organization and its stakeholders. Identifying

these involve an assessment of the organization's span, scope, services, and impacts. Along with this the impact an organization is having on identified stakeholders which include patients, caregivers, local communities, governments, investors, shareholders and more broadly the local environment needs to form a part of the materiality assessment. Formal interactions and feedback from stakeholders – internal and external need to be undertaken for finalizing material topics. Some critical material topics for health sector include – patient safety & outcomes, clinical excellence, workforce rights, cybersecurity & data safety, ethical conduct, waste, water and energy management, climate action etc.

Programs and policies around these material topics will need to be created and then reported upon subsequently. Disclosures are expected to be made publicly available and periodically updated. Hence the need for operating principles on data management, patency, collection methodology and reporting need to be fine-tuned in line with the organization's program. As these disclosures start, program management, continuous loops of learning and improvement, and progress will ensure the maturity of a program within the organization. Along with this, a concerted and deep-rooted training of the entire workforce on the organization's approach towards would need to be created. The new entrants into the workforce are demanding action on topics like climate and ethical conduct. Hence the need to communicate, train and cascade the organization's approach to create a common purpose will be critical to the success of a sustainability & ESG strategy in any organization.

While a lot of attention is paid on the “S” and “G” aspects of ESG, healthcare organizations will

need to move rapidly on decarbonization and low carbon alternatives that positively impact the climate. Creating a detailed emissions inventory of the organization is a necessary first step. Multiple tools and trackers are available to do so. Along with this, the need to tabulate, or at the minimum estimate, value chain or scope 3 emissions for any health organization is critical. With 75% of healthcare emissions coming from the supply chain, the need to understand the critical contributors to this inventory as a first step towards collective action. Substitution to low carbon alternatives in non-clinical practice areas is another priority for the sector. Rapid digitalization today allows organizations to embark on reducing paper and radiology films consumption. Such measures can help reduce the overall consumption and emissions footprint of a hospital, while also ensuring continuity and interoperability of patient records.

Apart from this, the need for introducing an energy conservation program is not only an imperative but also less capital intensive unlike previously. Moving to efficient LED lighting, building management systems, efficient HVAC, AHU and chillers systems, automatic lighting, low embodied carbon building materials, insula-

tion etc. are all available options that healthcare organizations need to adopt going forward. Phasing out of fossil fuel consumption, whether as fuel or in the fleet is becoming possible with the concerted drive towards low-carbon fuels like natural gas and fleet electrification underway across geographies. Recycling of water, onsite treatment of waste, transition to renewables both through onsite solar panels, enhanced energy storage or sourcing from a renewables provider need to become central to a hospital's energy transition strategy. These initiatives were immensely capital intensive in the years prior, but with advancements in technology and growing parity in demand-supply, cost of the energy transition is marginal or equivalent to traditional options.

Even in doing this, challenges on meaningfully getting to a net zero target for the sector remain. Take for example anesthetic gases. These vital compounds are essential for the sector yet are incredibly depletive for the environment. Till such time as alternatives to these gases emerge, the only option for the sector is to move to low-carbon versions. Which highlights the need for cross-industry collaborations. The health sector needs to actively reach out to researchers, technology companies, start-ups and sectors like power generation (where previously there was minimal contact) to innovate and create alternatives. The needs of the sector – both on clinical technologies and non-clinical ones need to be communicated to a wider set of stakeholders for innovations to make their way to the sector.

Sustainability & ESG are ideas whose time has come. The good to do, has now become the cannot do without. And the health sector needs to step up to this new challenge and continue its record of innovation, ideation, and adoption for the benefit of humanity and the planet.

ESG Disclosure in India: Exploring the Grey Areas

Kaushik Ranjan Bandyopadhyay, *Chairperson, Centre for Business Sustainability*
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The term 'ESG' was coined in January 2004, when the erstwhile UN Secretary-General Kofi Annan invited the chief executive officers (CEOs) of leading financial institutions to be part of an initiative launched by the United Nations Global Compact (UNGC) with the support of the International Finance Corporation (IFC) and the Swiss government. As ESG landscape is evolving globally as well as in India, it was increasingly felt that transparency through disclosures of information on environment, social and governance (ESG) front would bring about changes in corporate behaviour, improve corporate accountability, and lead to better outcomes for employees, customers, the environment, and local communities. The imperative to disclose was further triggered by rising investor demand for value-relevant, non-financial information and increased risk perception among corporates. In that context, SEBI came out with a recent consultation paper on ESG in February 2023. The consultation paper provides some baseline construct, metrics and KPIs with a focus on India specific parameters for incorporation in ESG disclosure. However, given the nascent stage of ESG compliance in India, there is still a plethora of grey areas that needs a closer examination.

A major challenge in ESG Disclosure is the complex web of authorities and frameworks for ESG measurement and disclosure that makes the disclosure unwieldy and creates a huge fatigue for the companies. There is also a huge confusion around the information to disclose, the way to disclose and the intended beneficiaries.

Another major challenge relates to identifying the 'material' ESG issues. Conceptually, an ESG issue is considered 'material' when it is identified by both the company and its key stakeholders as an area of concern that has the potential to also affect the company's financial bottom line. However, whether a particular issue qualifies as a material issue for a company or not is often context-specific; depends on the reporting structure adopted by a company and on the extent of its importance and impact for the company.

An added area of concern relates to the measurement and disclosure of 'S' part of ESG, as such issues are usually context-specific and vary widely across sectors and geographies. In fact, compared to 'E' (environment) and 'G' (governance), the 'S' (social) of ESG is way less tangible. 'S' also has a larger heterogeneity as it covers under its ambit a whole gamut of issues like human rights, labour standards, gender equality,

as also wider issues pertaining to diversity, equity and inclusion (DEI).

Given the unresolved ambiguities around the notion of ESG and plethora of material ESG issues to grapple with for a company, it is indeed a daunting task to single out the 'core' ones after accounting for multifaceted views of diverse stakeholders. The dynamic and inter-temporal nature of materiality compounds the problem further. There are enough reasons to worry that such complexities might eventually end up disincentivizing the disclosure process itself.

Given that the ESG data are voluntarily disclosed and unaudited, there are structural issues around measurement and reporting and the data is often incomplete and unreliable. The current system thus provides adequate room for companies to manipulate the disclosure process. Hence, there is always a potent risk of 'greenwashing' through unverified claims on superior ESG performance by companies. This is compounded by the lack of standardized disclosures making it more challenging to compare two companies on a given aggregate metric or a ratio, as the underlying data and methodology may not be the same.

As there is a clear need to tackle the problem of multiple standards and frameworks for ESG measurement and disclosure, and the associated challenges arising therefrom, SEBI's recent consultation paper proposes the introduction of the 'BRSR Core'. The attributes that have been considered in the BRSR core are - E (change in GHG footprint which accounts for Scope 1 and Scope 2 emissions and associated emissions intensity; change in water footprint which includes volume, intensity and discharge; R&D expenses in reducing environmental footprint; circularity and waste management); S (employee wellbeing and safety; gender diversity; inclusive development); G (fairness in engaging with customers and suppliers; openness in business which accounts for concentration of purchases and sales done with trading houses, dealers, and related parties plus loans and advances and investments with related parties).

Another issue that is often overlooked in the ESG disclosure process is the globally fragmented production networks. Supply chains often have multiple tiers with contractors outsourcing to multiple subcontractors spread across different regions or geographies making the traceability problematic. The Rana and Tazneen garment factory tragedies in Bangladesh in 2013 where more than thousands of textiles workers lost their lives bear ample testimony to how a disaster could crop up in the absence of audits and failure to trace social abuses in the supply chain.

In the area of 'E', particularly climate change, a company can measure its greenhouse gases (GHG) emissions footprint at three levels: (i) Scope 1, i.e. emissions produced in its own facilities and through owned vehicles and thus under its direct control; (ii) Scope 2, i.e. emissions from purchased electricity; and (iii) Scope 3, i.e. all other upstream and downstream emissions that include those generated in the supply chain, business travel by employees, and by the usage of products sold. However, tracking and measuring

such emissions is a daunting task given the multiple layers of the supply chain which may be spread over multiple countries. Furthermore, given that many supply chain partners may be small unlisted firms belonging to the informal sector, it may not be easy for them to track and report on ESG metrics.

Recognizing the tracking challenges, the SEBI proposal recommends a phased manner of ESG disclosures for supply chain for top 250 listed companies in India (by market cap) on a "comply or explain" basis and assurance is not mandated to begin with. An important issue, however, that is conspicuous by its absence from the discussions globally as well as in India is that of the supply chain resilience. No metric or KPI pertaining to this has been included in the SEBI's BRSR Core. Information on the resilience related KPI is critical to infer on the capability of businesses to effectively come out, adapt and grow from an unforeseen shock or stress, such as a pandemic or a climatic disaster.

Considering the opacity in disclosure by companies, there is no doubt that the pressure from the stakeholders would mount for harmonizing them, as stakes in the ESG space become progressively higher. Aligning with the BRSR core, as proposed in the SEBI's paper, is likely to pave the way for the first stage of harmonization and comparability especially in the Indian context. There is also a clear imperative to expand the BRSR core to design and incorporate some KPIs for supply chain resilience to assess the risk coping capacity of the system in case of any unforeseen stress or shocks.

It also needs to be noted here that by design, there is an inherent bias of the ESG-disclosure to cater to only the needs of the investors. However, given the importance and relevance of ESG for a wider public, it is imperative to design the disclosure systems in such a way that it could be used by a wider set of stakeholders including government, regulators, civil society and public at large.

Social aspects of Sustainability

Manish Kumar, *Head-ESG & CSR, ICICI Bank Limited*

Sustainability refers to a set of factors used to measure the non-financial impacts of investments, business strategy and activities of an organisation. As things stand today, it is widely accepted that ESG, which stands for Environmental, Social and Governance, are the parameters which can be used to assess an organisation's posture on sustainability. At its core, ESG is a means by which companies can be evaluated with respect to a broad range of socially desirable ends. These aspects have gained importance as we increasingly risk degradation of the quality of human life, the health of natural environment and gradually a slowdown in vibrancy of the economy. With increase in frequency of natural calamities and disasters like earthquakes, wildfires, and changing wind patterns causing change in intensity of rainfall or prolonged periods of drought, climate crisis is already creating substantial harm, particularly to vulnerable populations. It is estimated that if these are not appropriately attended to, the global GDP could get shaved off by as much as 0.4% by 2030. Therefore, addressing climate risk has become an area of focus of various regulators with the objective of minimizing the impact arising from such events and creating avenues for investment for positive impact on human capital.

The “S” in ESG looks at labor standards, wages and benefits, workplace and board diversity, racial justice, pay equity, human rights, talent management, community relations, privacy and data protection, health and safety, supply-chain management issues. Investors which have adopted the principles of Socially Responsible Investing (SRI) seek companies that promote ethical and socially conscious themes including social justice, and corporate ethics, in addition to fighting against racial, gender, and sexual discrimination. Social aspects consider the company's relationships with internal and external stakeholders to determine its virtuous behavior – or otherwise. Social impact has to be examined in two parts:

i) Own operations - The evaluation encompasses an organisation's policies, frameworks and practices on aspects like safety and accident prevention, human capital development, talent attraction and retention, equality and diversity, product quality and compliance, etc. It may be noted that companies have to be evaluated differently and probably with varying degree of rigor based on the sectors in which they operate. For example, parameters like occupational health and safety could be more relevant to manufacturing companies than to service

sector companies. Parameters like staff training and upskilling, equality and diversity are relevant to all sectors.

ii) Ecosystem – Questions that are often asked to assess behavior outside workplace include, Does the company hold suppliers to its own social standards? Does the company contribute some part of its profits to the local community or encourage employees to perform volunteer work there? Does the company take unethical advantage of its customers or rather resorts to practices like appropriateness of the product for the end user, being transparent and fair to the customer, customer relationship management, privacy protection?

In India, the mandatory Corporate Social Responsibility (CSR) requirements equip organisations to achieve some Social objectives with accountability and integrity as well as build trust and confidence over time. A host of activities like supporting livelihoods, upliftment of the society's underserved strata, supporting healthcare, sanitation and education meet these requirements and ensure progress in tackling major social challenges and drive positive impact.

From a BFSI sector perspective, focus is gradually shifting on building lending and investment portfolios in sustainable areas of affordable housing, responsible waste disposal, water management and recycling, supporting healthcare, education and women entrepreneurship. In India, the approach of directed lending has helped the sector to put processes in place for appraisal, credit assessment and ensure end use of disbursed credit in these areas. However, one needs to be conscious that all such lending may not qualify as 'Social'. Assessment of Social parameters could be subjective and lenders have to work alongside their ecosystem of borrowers to facilitate understanding of the basic requirements to make a business case for access to credit. SME and MSME borrowers need to appreciate what are or could be the expectations of external stakeholders as more of them expand business beyond India's boundaries or tap international funds. Adoption of sustainable social practices are imperative to ensure business continuity of such enterprises as any disruption in business poses risk of adverse impact on financial performance. Many Development Financial Institutions, while financing large projects, are used to undertaking enhanced due diligence and/or insisting on appointment of a third party like a Lenders' Engineer to ensure that Resettlement & Rehabilitation (R&R) issues are appropriately addressed and don't become a bottleneck in project implementation and/or for successful commercial operations. These requirements help lenders to ensure return of capital. Ultimately, as trustees of public money, banks and FIs owe this to their depositors!

With increasing focus on Social parameters, the BFSI sector is also seeing wider availability of thematic funds. In FY2022, Shriram Transport Finance issued a Social bond of USD 475 million aimed to providing access to finance for the underbanked individuals, Single Road Transport Operators, MSMEs. In FY2023, State Bank of India garnered about USD 1 billion through an internationally syndicated loan, tagged as Asia Pacific's second largest issuance in the Social space. The end use of these funds is for onward lending to MFIs and for social causes. As part of these funds raise, there are stipulations for monitoring end-use of the funds. Third party assurance or certification, impact assessment reports are also being adopted to ensure robust governance.

Another approach by investors and regulators that is becoming mainstream is to encourage organisations to make enhanced disclosures on companies' website, within annual financial statements and/or separate ESG or Sustainability report. From fiscal 2023, SEBI made the Business Responsibility & Sustainability Report (BRSR) mandatory for the top 1,000 listed Indian companies. About 40% of the 140 indicators identified for reporting are around the Social factors. Through the guidelines issued in July 2023, the SEBI has also articulated that the indicators have to be reported from an Indian context and gradually bring value chain partners within the ambit of reporting. To achieve this, large and influential organisations will have to stipulate similar requirements from their vendors and if required, facilitate it through a hand-holding process and by demonstrating purpose. Indian ESG Rating providers are being asked to model their approach keeping in mind India-specific nuances. It may be noted that the BRSR is structured around National Guidelines on Responsible Business Conduct which draws from various internationally acceptable reporting frameworks like GRI, SDG, SASB, CDP, TCFD. International investors and rating agencies need to be mindful of this and also the targets set by Government of India, when assessing where Indian companies are in their journey of becoming sustainable.

Finally, it should be appreciated that it is everyone's responsibility in an organization to take part in the development of virtuous, more sustainable, inclusive and transparent practices. Each team leader, department head understands his/her domain the best and can be more impactful. Some people are of the view that focus on Social issues is a shift from business strategy and goals and reduces profitability. It is overlooked that, in current times, an organisation or brand which takes into account some minimum requirements and expectations of its employees, its value chain partners, its customers and regulators, has a better chance of bonding with its customers. This also provides a range of business and investment opportunities. Hence, Social metrics should become an integral part of business strategy and a key business goal or objective. “Impact” companies also have a better chance of winning investor confidence leading to better return on capital.

Current and the future ESG trends shaping the Indian landscape

Namita Vikas, *Founder & Managing Partner, auctusESG LLP*

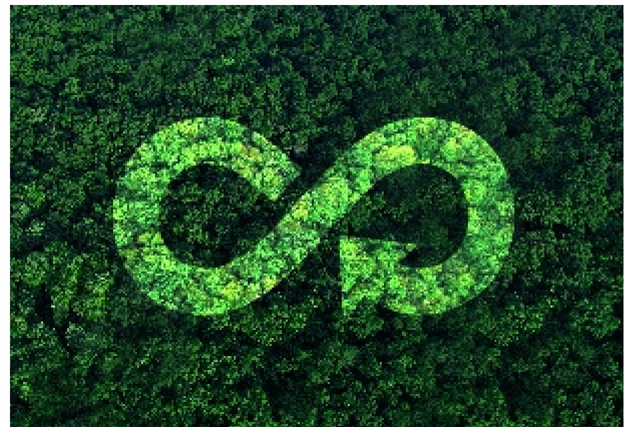
Over the last few years, incorporation of ESG factors in business activities has graduated from a nascent to early stage, slowly becoming mainstream in many markets, mainly on account of regulations or push from investors. This is evidenced by the growth in ESG assets over the past decade, with forecasts estimating that ESG-oriented assets, could exceed USD 53 trillion by 2025, representing more than a third of the projected total AUM globally.

This rapid development in ESG and sustainability over the past couple of years has been attributed to the growing realisation that ESG adds value and creates a distinct competitive edge, irrespective of the organization size. In 2022, the ESG factor returns remained positive, despite lower, than the previous five years and as per MSCI ACWI Investable Market Index (IMI), the top ESG quintile companies outperformed those in the bottom quintile consistently over 1-5-year periods. In short, this non-financial parameter is fast becoming a necessary and important element to gauge a company's overall performance.

Initially the ESG momentum was kickstarted with the world's largest investors coming together, to transition to net-zero, turbocharging ESG and sustainable finance. GFANZ (Glasgow Financial Alliance for Net Zero) formed in 2021, brought together over 650 members in 50 countries from the finance sector, who committed to decarbonisation and net-zero finance initiatives. This saw a ripple effect on borrowers, who then increasingly were seen participating in other global initiatives, like RE100 and Climate Action 100+, that brought together large businesses from across the world for concerted climate action.

Key developments on ESG aligned laws and compliances across Europe, UK, US and Asia provided further impetus and accelerated the transition to a net-zero global economy, impacting those who engage or operate across markets, thus building the pressure to align and act speedily.

The starting point was disclosures and today, many of these regulations are enhancing the role of companies and finance sector in reporting on non-financial parameters. For example, India's guidance on BRSR Core, green retail deposits, consultations on climate risk management in Indian banks, and rules for ESG rating agencies, is slowly changing course of doing business. These ESG mandates are bound to provide the



required transparency and quantification. At the same time, they enable comparability across companies, sectors and enhanced data assessment on ESG and climate-related factors in the near to mid-term. Disclosures are bringing standardisation and discipline to the market and are serving as a score card on ESG performance, resulting in course correction and target setting, thus assuming a robust balance between business growth and embedding sustainability.

Take for instance the Indian BRSR framework that requires companies to disclose details on social inclusion like number of differently abled employees, female representation, and measures that companies are taking to improve these numbers. Steadily, such disclosures are enabling users of this data, like investors, to understand a company's approach to diversity, and check against potential future social risks or assess business opportunities, that cater to diversity. In short, ESG frameworks have started to shape business landscapes, serving as important check-points to manage risks, and tap opportunities presented by a changing world.

Within the Indian financial sector, few banks have started to innovate on financial products and structures, to address the growing ESG and green priorities. Both regulators, SEBI and RBI have been proactive with measures like revisions to green bond issuance guidelines, that require third-party assurance and green deposits framework, that will potentially lead to low-cost retail asset products, to enable capital flows directly into green or climate interventions. Such laws will not only, contain green washing, but also, provide enhanced access to capital, to decarbonise or social inclusion, and provide an oversight to top management in companies' corporate governance structures.

The scenario is further emerging on the ESG front as more and more investors integrate these aspects into their investment strategies and risk matrix. Currently, without a universal uniform definition, multiple reporting frameworks and nascent understanding amongst financiers and borrowers, the space continues to be rife with challenges. Data accuracy, accessibility and authenticity, lack of tools and capacity to interpret or quantify data are raising questions around corporate accountability.

The aggregation of disclosure standards globally with ISSB's new standards - IFRS S1 and IFRS S2, is a step in the right direction, a single platform, ushering in a new era of sustainability-related disclosures in capital markets worldwide. This is a vital step forward in establishing a global baseline for sustainability reporting, that is consistent and comparable, which is expected to enhance the quality of corporate disclosures.

Emerging technologies such as big data analytics, AI, and ML are expected to play a critical role in future, facilitating precision on ESG reporting, monitoring and evaluation and in driving innovation. With growing threats of climate change, ESG discourse is also instrumental in triggering climate action at speed and urgency within companies. Setting targets on greenhouse gas

emission reduction, adoption of green technologies, development of green products and transition planning, all integral parts of an ESG journey, are at a rise, laced with accountability at the board of directors and senior management levels.

The current tailwinds will provide impetus to this ongoing ESG journey across markets. Understanding the criticality of ESG and climate risks, navigating sustainable finance to an institution's advantage from an opportunity and risk standpoint, taking commitments and targets on allocation of capital, resource planning and making these aspects a board agenda, becomes an imperative to mainstreaming ESG in future. Moving from compliance to competitiveness, by integrating ESG into core business models will not only, enable low-carbon, resilient transition, but also, help in addressing poverty, inequality and inclusion under SDG goals and achieving a balance between growth and sustainable development.

ESG – Resilience and Value Add: NIIF Experience

Prakash Rao, *Executive Director and Chief Investment Officer – Indirect Investments, National Investment and Infrastructure Fund*

Introduction

Climate change has become a defining topic for the world today, primarily because of the havoc caused by rapid industrialisation and urbanisation. Global warming has been taking a toll with receding glacial lines, drying up of water resources, changing weather patterns all leading to disastrous consequences for the people and the planet.

Against the above backdrop, the Committee of Parties (COP) was formed in 1995 under the aegis of the United Nations Framework Convention for Climate Change (UNFCCC) to work out modalities for reducing greenhouse gas emissions and making the planet a sustainable place for the current and future generations. Over the last two decades there has been a substantial work done and developed countries have made commitments to reducing carbon emissions. A number of countries have also committed to becoming net zero, over an agreed time frame. While multilateral diplomacy and summitry have done a phenomenal job, climate crisis resolution requires action from every stakeholder -- from governments to industrial corporations to investors to individuals.

Thanks to the work done by the COP, the adoption of Kyoto Protocol and the awareness thus created, ESG factors are now recognized as integral to assessing a company's long-term sustainability and climate risk profile. While environmental risks like climate change can impact a company's long-term viability, poor governance can lead to ethical and legal issues. Social factors, such as labour practices and community relations, influence the reputation. In the light of all these, it has become imperative for all businesses to address ESG risks, to be able to outperform.

Many businesses still see addressal of ESG issues as an impediment to scale. However, these businesses often overlook the fact that a low-risk score on ESG factors improves their long-term viability and help outperform on profitability.

Our experience shows that it is not impossible for any business to embark on the journey of integrating ESG with their overall objectives and reap results that are beneficial to all the stakeholders. What is required, of course, is the right mindset and an approach to evaluate all the issues that matter to the business from environment, social and governance aspects.

In this paper we share how at NIIF we have successfully embedded the ESG aspects in our day-to-day business.

National Investment and Infrastructure Fund Limited (NIIFL) is a collaborative investment platform for international and Indian investors anchored by the Government of India. NIIFL invests across asset classes, such as infrastructure, private equity, and other diversified sectors in India, to generate attractive risk-adjusted returns for its investors. NIIFL manages around USD 4.9 billion of capital commitments across four funds.

At NIIFL, sustainability of investments and adherence to ESG standards play a critical part in investment decision-making and appraisal processes. It is our firm conviction that ESG factors protect and boost a business's reputation and image while aligning stakeholders' expectations, including prospective investors. We might say that this approach helped NIIFL attract marquee global investors right from its inception.

In the next couple of sections, we would share how NIIFL successfully built the sustainability and decarbonization practice with ESG resilience and value add as the keystone to our organisation.

ESG at NIIF

Setting the Vison:

To begin with, we have articulated our vision for ESG and commitment towards implementing best in class ESG principles in our investments. Our aspirational approach has been a focus on triple bottom line, and our goal "beyond commercial returns". To put such aspirational goals into a framework that addresses environmental and social issues with the right governance framework has been, to say the least, challenging. The senior management team have had extensive deliberations amongst experts, investors, peers and other stakeholders that culminated in creating the E&S Policy and Principles. The policy clearly articulates that mainstreaming ESG considerations in investment decision making is a strategic move that can enhance financial performance, manage risks, and align investments with broader societal and environmental goals. To make it easy for the teams to implement and follow the policy and principles, a framework of Environment and Social Management has been developed that would fit the purpose and befit a leading global asset manager.

Further, NIIF has integrated E&S policy and principles into the overall risk management framework catering to national and good international industry practices. The policy and principles are applied to all businesses and investments undertaken at NIIF, providing guidance in identifying environment and social risks and impacts associated with its potential and portfolio investments across the NIIF funds. Towards achieving this, NIIF has put in place well defined processes and procedures integrating the ESG requirements with the investment process. Each step of the ESMS has been matched with the investment process, making it dynamic, rather than routinely checking a box.

Developing ESG Culture:

To develop ESG culture in the organisation, the entire team works at two levels. One which is internal to NIIF and second which is external – at the portfolio investments level. The team at the internal level is constantly involved in awareness building, training programmes and cross learning platforms. Further to create awareness about environment, we have embarked on sapling planting, beach cleaning programmes collectively as a team, doing away with single use plastic, replacing plastic water bottles with glass and steel bottles, etc. At NIIF, as the team members are well aware of the environmental and

social risks and impacts, they are more likely to develop a culture of ESG. Further, the Investment Committee members proactively seek information on ESG aspects at the time of investment decision making, conveying to the broader team that ESG factors are of great importance in making investment decisions.

To implement the systems and procedures NIIFL has put in place an experienced team to address the ESG risks and impacts. It would not be an overstatement to highlight the unique position that NIIFL has gained due to its dedicated in-house seven-member team, who are professionally qualified and experienced in identifying the environment, health, safety, and social (EHSS) issues. The team helps identify the key risks and impacts of each investment in the pre-investment stage and subsequently engage with the investee portfolio to enhance the performance for value add.

The sixteen investments so far made by NIIF across the funds have created a staggering ecosystem of more than 200 resources fully qualified in environment, health, safety and social domain. The value of the ecosystem is unparalleled when it comes to working at the ground level where the project is. They ensure that the environment and social risks including health and safety are appropriately addressed and mitigated thereby protecting the reputation of the organisation.

Building Resilient Business

In the pursuit to go beyond commercial returns, conformance to ESG has added value to the business expansion. We could attract investors and demonstrated to them on meeting the good international industry practices on environment and social aspects. The successful implementation of E&S requirements has raised the comfort levels among the stakeholders paving way for building a trusted institution for international and domestic investors.

The portfolio investments stand by the environment and social commitments with appropriate governance structures made to us at the time of our investment. They continue to replicate the environment and social management systems set up by NIIF, by establishing fit for purpose controls and procedures addressing the risks and impacts. The businesses achieved greater resilience in protecting the value preventing it from erosion by fittingly assessing, identifying and mitigating the ensuing E&S risks. The resilient businesses are adding great value to the shareholders.

The ESMS systems are applied to all the investments to drive the E&S practices in their operations, leveraging NIIF's E&S policies, principles/standards. Across all investments, NIIF E&S team handhold the investee companies in rolling out the E&S policy, procedures and process and onboarding of a qualified and experienced E&S resource to drive the E&S culture across the investee company. Our approach with the investee company is to go beyond "compliances" and integrate the environment and social risk and opportunities customised to their business.

Long-term value creation

We are witnessing a fundamental change in the operating environment, including climate change, where investors are looking for affirmative action by asset allocators to address the risk associated with ESG and unlock value for their stakeholders and broader society. This new equation turns ESG theory into action when fund managers become a community of solution providers driving sustained outcomes from practice interventions to ensure ESG related effects are adequately identified, measured and mitigated. Over the past couple of years, some of the interventions taken by NIIFL towards creating long term value are listed below:

One Planet Sovereign Wealth Fund (OPSWF): NIIFL is signatory to OPSWF. OPSWF supported the NIIF through peer exchanges in the technical aspects of managing the risks of climate change. The network has helped raise the profile of opportunities for co-investment in India's transition to a low carbon economy.

NIIF ESG Chair at IIMA: One of the critical imperatives for NIIF is to take the lead in the country to put ESG and climate at the forefront of its investment activities. With this objective, NIIF has set up the "NIIF Chair in ESG". The partnership with IIMA provides an opportunity for NIIF to play a catalytic role in shaping the future of ESG and climate in India. The Chair focuses significantly on the environmental aspects and the climate policy pathways for the investments.

Inaugural E&S Summit: A first of its kind E&S Summit was organised by NIIF for the E&S ecosystem underlying the importance of "impact" when developing any project; a positive impact is critical for the country, community, environment. It was heartening to hear the participants advocating adoption of E&S risk assessment and implementing E&S management systems and frameworks that help their businesses and other stakeholders. The E&S management systems and procedures are the important first step for any business.

Trainings: NIIFL in collaboration with NIIF ESG Chair, IIMA organised a 3-day ESG Programme in June 2023 at IIMA. The E&S and non-E&S professionals from across the NIIF portfolio investments / funds participated in the programme to learn about the best practices in ESG and gaining hands on experience on climate risk assessment and addressal in their respective businesses. This has helped reinforce the ESG culture across the NIIF ecosystem.

Conclusion

NIIFL is at the cusp of becoming the leading home-grown investment organisation with responsible investing. NIIFL is convinced that the E&S contribution made by it could greatly enhance the value of the investment, creating an enduring business for the future. The importance of integrating best practices in both E & S into the governance framework of every project, to bolster sustainability while generating better returns for investors is undeniable. It is our earnest belief that the role played by NIIF in replicating the best ESG practices across the investee companies / funds will lead to more and more awareness and development of ESG culture across the ecosystem.

Financial Institutions and Climate Change: Measuring Financed Emissions and the Importance of Transparent Disclosure

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Arun Victor Paulraj, *Sr. General Manager Climate & ESG Services, EKI Energy Services Ltd.*

The Financial Sector's Climate Mandate

Amid the broader panorama of global climate change, the nation's financial institutions (FIs) find themselves at a crossroads. They have a dual mandate: to be the custodians of the country's economic health and to play a proactive role in steering it towards a sustainable future. Financial institutions hold the potential to both mitigate climate risks and catalyze green opportunities. By doing so, they not only protect their assets but also set the tone for a resilient and environmentally-conscious economy.

Partnership for Carbon Accounting Financials (PCAF): A Beacon for Financed Emissions Accounting

Navigating the complex maze of financed emissions requires a robust framework, and this is where the Global GHG Accounting and Reporting Standard for the Financial Industry, commonly known as PCAF, comes into play. Introduced as a foundational framework, PCAF empowers financial institutions to accurately gauge and declare their financed emissions. In essence, it provides a roadmap for FIs to comprehend the carbon footprint of their portfolios.

Understanding these emissions is just the beginning of the journey. The ability to analyze them is vital. It provides the foundation for financial institutions to wisely manage risks, discover sustainable prospects, and embark on a path to decarbonisation

Transparent Disclosure: A New Gold Standard

In the financial realm, transparency is paramount. Stakeholders, ranging from individual customers to institutional investors, demand clarity on how FIs are grappling with climate-related challenges. The Task Force on Climate-related Financial Disclosures (TCFD) offers a beacon in this regard. With its comprehensive recommendations spanning governance, strategy, risk management,

and metrics, the TCFD outlines a blueprint for addressing the financial risks posed by climate change.

Banks and other financial entities are now heeding the call to align with these guidelines. By doing so, they're not merely ticking off a regulatory box. Instead, they're enhancing transparency, building trust, and illuminating their strategies to navigate the treacherous waters of climate risks. In today's digital age, where information is at everyone's fingertips, climate-related disclosure isn't a luxury—it's a necessity. And banks, as pillars of trust, are shouldering this responsibility with renewed vigor.

Connecting Carbon Footprints to Climate Risks

Beyond broad disclosures, there's a pressing need for tailored solutions. Recognizing this, forward-thinking FIs are pioneering methods to draw intricate correlations between a client's carbon footprint and associated climate risks. By delving deep into CO2-intensive sectors, these institutions can assess a client's exposure to a myriad of climate risks. These span from regulatory implications to the evolving demands of an increasingly eco-conscious customer base.

Source: *https://www.fsb-tcfd.org/*

In conclusion, as India steers its ship towards a net-zero future, the financial sector's role is undeniably central. With frameworks like PCAF and guidelines from TCFD, banks and financial institutions are equipped with the tools and knowledge to be effective climate stewards. Their actions today will shape the nation's environmental and economic landscape for generations to come.

Patient Capital and ESG Investing

Sashi Krishnan, *Chief Executive Officer, National Pension System Trust (NPS Trust)*

Globally, the total size of ESG funds are a tiny fraction of the mainstream investment management industry. While intuitively, patient capital and ESG seem to be a natural fit, pension assets have just not found their way into ESG investments, globally. This trend is, but naturally, also mirrored in India.

For ESG investments to become mainstream for Pension Funds in India, there are a few key issue that need to be addressed.

Pension Funds are faced with a conflict relating to what is perceived to be their fiduciary responsibilities. In the good old fashioned way, Pension Fund managers understand that their fiduciary responsibility lies in maximizing the financial returns of subscribers. ESG investing, for them, is just a distraction! Pension Fund subscribers too, are sold the idea that there is a trade-off between ESG investing and fund returns and they need to accept lower returns if their funds are deployed in ESG investments. This issue of reconciling their fiduciary responsibilities with ESG investing needs to be addressed upfront. Pension Fund managers and trustees need to get comfortable with the idea that incorporating ESG information into their investment portfolios does not compromise their fiduciary responsibility. They need to accept the idea that investing in businesses that have great governance standards and are environmentally and socially sensitive makes sense for long term investors. There is a very high probability that such businesses will be able to deliver superior risk-adjusted returns while at the same time adhering to high standards of responsibility and sustainability. Maybe, the understanding of fiduciary responsibility has to evolve past just the maximization of financial returns alone!

The second issue that needs to be addressed is the lack of standardization of ESG scores/ESG ratings. The dispersion of ESG ratings among ESG Rating Providers makes Pension Fund managers uncomfortable. ESG scores/ESG ratings are usually narrowly focused and backward looking. An examination of the ESG scores of listed Indian companies indicates that Tech Companies and Financial Services companies tend to obtain high scores as they have a very low environment impact. Funds focused on ESG investing would thus, quite obviously, be significantly overweight these sectors introducing a bias in their portfolio construct. Over the course of time, there will hopefully be greater standardization and the ESG ratings from the various ESG Rating Providers will converge. This should

provide greater comfort to Pension Fund managers.

The third issue Pension Fund managers have, at present, is limited knowledge and expertise in the area of ESG investing. Pension Fund managers are tasked with delivering market-rate returns and see ESG investing as just another box that needs to be ticked. Fund managers find it difficult to evaluate investment opportunities based on an ESG framework as there are no standard best practices available for evaluation. By default, therefore, most ESG investing is done through exclusion – by cutting out sectors and stocks that are unacceptable, from a governance or environmental perspective, from their portfolios. Such an approach, which reduces the investable universe by excluding a large number of stocks, is seen to restrict the potential to generate outperformance. To address this issue, fund managers must be able to actively engage with company managements so that they can understand and appreciate the BRSR disclosures and transition plans of the company. This will help them identify investment opportunities in businesses that are able to contribute to sustainability.

The fourth issue that Pension Fund managers have is the difficulty in gauging the impact of ESG investing. Pension Fund managers have a time horizon of 5 to 10 years whereas the results of impact investing can take decades to be seen. While it is easier to understand and measure the impact of "E" in ESG, this is certainly not so for "S". "G" lends itself to interpretation and what constitutes good or questionable governance standards is very often unclear. This issue is not so easy for Pension Fund managers to resolve, and it will only be through years of experience that they will be able to develop an appropriate approach that is consistent with their investment philosophy.

Lastly, it must be remembered that the pension fund industry is highly regulated. Pension Funds are constrained to run low-risk funds, with restrictions on the kind of assets they can invest in, the amount of exposure they can take to various sectors and companies etc. However, the evolving regulatory environment is encouraging investment managers to look at ESG investing very seriously. The challenge for fund managers will be to identify ESG opportunities within the regulatory constraints.

The nature of Pension Fund liabilities is essentially long term. This gives them the ability to deploy their funds into ESG investments so as to generate long term returns while at the same time creating positive outcomes on the ESG front. The challenges, though tough, are not insurmountable. ESG investing, is clearly, the way forward for patient capital.

Views expressed are personal.

Banking with Vision. Delivering with Impact.

Shikha Hora Kamdar, *Head- ESG & Consumer Lending, IDFC FIRST Bank*

The worldwide shift towards ESG and corporate sustainability is gaining steady momentum. It's now a non-negotiable imperative for all stakeholders: investors, regulators, consumers, employees, supply chains and communities.

Fast and coordinated action is needed to address pressing challenges like climate change, all while aligning with economic and social objectives. Often, a lack of systemic thinking hinders progress and leads to trade-offs between economic, environmental, and social dimensions. Here, institutions and governments can collaborate, align priorities, and keep the greater common good in focus. Encouragingly, global initiatives are taking shape, forming consortiums and frameworks that are consolidating for greater impact. For instance, the G20, currently under India's presidency, emphasizes sustainability on a global scale, guided by the principle of Vasudhaiva Kutumbakam (One Earth, One Family, One Future).

Twin roles of ESG in Banking

In India, a commitment to ESG is becoming entrenched in the corporate ethos, from creating positive impact to reducing business risk. Organizations across industries now maintain ESG as a non-negotiable before taking strategic decisions and steering the course of their business. In banking, however ESG uniquely plays a twin role.

The first role of ESG in banking is to identify the banks' environmental footprint, social impact, and commitment to good governance. As they expand their geographical footprint, Banks would need to consider energy, waste, and water as increasingly material topics for measurement of footprint. They will need to set targets across these parameters and set Net Zero targets for direct emissions. We are able to see several large Indian banks now moving in this direction, realizing the business need and by complying with emerging regulations.

Further, with new cohorts of workforce being integrated into banking, Banks need to ensure that they attract and retain talent through the right incentives while building an inclusive, global, and meritocratic culture. They also need to evaluate their value chains for their strength and stability by assessing their commitments to human rights and other important metrics. Last, but perhaps most importantly, governance is the

cornerstone of a stable and growing financial institution. The way Banks manage their capital, risk, policies and overall operations should be a definite focus. As proven by examples in the past, even a slight negligence on this front can lead to strategic, reputational, and even fatal risks for the institutions.

The second role of ESG looks at banks as enablers of credit, which can be channeled to areas, projects, and causes which can create positive impact. In India, for example, the role banking can play in financial inclusion, is unprecedented. Availability of formal credit across geographies is critical for the economy and in building a welfare state. It is also critical to those availing credit, who otherwise would have had to resort to prohibitively expensive rates of interest through informal means. Similarly, with climate action becoming more critical than ever before, green businesses and sectors have a big role to play in the transition. To enable this, however, there needs to be a significant shift of capital flow into these segments. Banks are best placed to facilitate this.

In this context, sustainable finance has become a global phenomenon, which has been growing significantly in the past two to three decades to touch a market size of over USD 4 trillion (Source: Global Market Insights). Further, as a collective body, the G20 Sustainable Finance Working Group (SFWG) has outlined three key priorities in its roadmap: (i) Mechanisms for climate finance mobilization; (ii) Enabling finance for Sustainable Development Goals; and (iii) Strengthening the ecosystem for sustainable development financing. These interventions will raise expectations for swift action from member nations and the global community. In India as well, ESG-themes funds and sustainability-linked bonds are finding traction. The recent issue of the Reserve Bank Framework on Green Deposits is another initiative in this direction, which can direct proceeds of investments to specific environmentally-friendly segments.

Walking the talk: IDFC FIRST Bank

At IDFC FIRST Bank, the ESG agenda embraces the three dimensions of Environmental, Social and Governance and across both the above roles. The Bank has a dedicated ESG function, which undertakes strategic and impact-based interventions, which is further governed by Board and Management Committees. Having a strong governance structure for ESG helps the Bank ensure that its efforts are well validated and are moving the needle towards positive impact. The Bank has identified its material topics and an ESG framework which is closely aligned with its corporate vision “To Build a World Class Bank in India, Guided by Ethics, Powered by Technology, and be a Force for Social Good”.

Environmental

From an environmental standpoint, the Bank has embarked on a journey of building and certifying its large offices and key branches as green buildings, rated by LEED or IGBC. Starting with its head office, the Bank is also shifting to green energy to power its premises. The Bank is also ensuring that its waste footprint and energy utilization are measured and reported, while setting targets for their progressive reduction. A critical initiative is baselining and identifying the Bank's GHG inventory, across Scope 1, 2 and 3 emissions, including wholesale and retail financed emissions. This will serve as the base for the Bank's Net Zero ambition and climate transition plan. Further, the Bank is also assessing its risks and opportunities, aligned to the TCFD recommendations.

Social

IDFC FIRST Bank has always stood for being a socially relevant institution, with 'Social Good' even forming part of its vision statement. Apart from its CSR initiatives, the Bank is naturally oriented towards creating social impact, by way of its businesses and the client segments it serves.

IDFC FIRST Bank extensively operates in rural India and onboards first time borrowers in both rural and urban India. The Bank has financed over 30 million small entrepreneurs and consumers across 68,000 villages across the country, and this base is growing. This is truly a privilege, as the Bank can serve these segments as an institution which not only accelerates financial inclusion, but also gets to channelize lending towards high-impact segments. For instance, IDFC FIRST Bank is a pioneer in toilets, water & sanitation financing (WASH), where it has financed over 200,000 toilets with an aggregate exposure of Rs. 800 crore. While serving this segment, the Bank has experienced that these customers have an impeccable track record with great portfolio quality, making this a sustainable, impactful and socially-relevant area of financing.

For its employees, the Bank has constituted several internal policies, including an anti-discrimination policy. It also imparted ~50 learning hours per employee last FY, constantly upskilling its workforce. For its customers, the Bank ensures utmost transparency; ensuring that they are well aware of the Bank's offerings and fee structures. In fact, the Bank's 'Fee-Free Banking services' stands as a testimony to its 'Always You First' philosophy.

Governance

One of the core tenets of IDFC FIRST Bank is its approach to ethical banking, and it is manifested through its industry-leading good governance practices. The Bank is led by a majorly independent Board, and able management with diverse skill sets. The Bank adheres to existing regulations for governance and proactively aligns to industry best practices for corporate behavior, including a strong vigilance mechanism, cybersecurity measures, robust risk management framework etc. The Bank also ensures that it embraces voluntary reporting frameworks such as GRI, SASB and Integrated Reporting, apart from the mandatory BRSR, to communicate to its stakeholders on its ESG progress. The outcomes of its efforts and disclosures are being reflected in the Bank's rising ESG scores across various renowned rating agencies.

Responsible lending

From business standpoint, IDFC FIRST Bank is a universal bank offering wide suite of Banking products to its growing customer base. The Bank plays a key role in financial inclusion, by lending actively to rural households, micro and small businesses and farmers. Similarly, its financing towards Water, Health and Sanitation contributes to both national and international ambitions. The Bank is also a leading financier for electric vehicles, having financed around 1.5 Lakh EVs as at June 2023.

While the Bank is focused on its retail franchise, its wholesale book adheres to the Bank's ESMS framework, thereby ensuring a risk-mitigated portfolio from an environmental and social perspective. The Bank also proactively follows Equator Principles for project finance, which ensures that the Bank does not lend to sectors under exclusion and reports annually on its implementation.

Aligning inherently with ESG

The way in which the Bank has structured its business is naturally inclined towards ESG. Through its growing scale and reliance on technology, the Bank is able to underwrite loans in deep rural geographies while ensuring high portfolio quality. The Bank's robust governance mechanism ensures that it stays on its stated strategy, while creating consistent and lasting value for its stakeholders. Across the roles of being a corporate and a lender, the Bank continues to build a sustainable institution creating positive impact and lasting value for its stakeholders and communities at large.

ESG Practices and Indian Culture: A Harmonious Partnership for Sustainable Growth

Vijayanand, *Head – HSE & Sustainability, Hero Future Energies Pvt. Ltd.*

Introduction

In recent years, Environmental, Social, and Governance (ESG) practices have gained significant prominence on the global stage. These practices reflect a growing awareness of the need for businesses to go beyond profit and consider their impact on the environment, society, and governance structures. Interestingly, when we examine ESG practices and Indian culture, we find a harmonious partnership that can drive sustainable growth. This article explores the intersection of ESG and Indian culture, highlighting how traditional values and modern ESG principles can work hand in hand.

1. Environmental Responsibility:

Respect for Nature:

One of the core principles of ESG is environmental responsibility, and Indian culture has long emphasized the importance of respecting nature. Hinduism, Buddhism, and Jainism, three major religions in India, all advocate for reverence towards the environment. The concept of "Ahimsa" (non-violence) extends not only to human beings but also to all living creatures. This philosophy aligns closely with modern environmental ethics, promoting sustainable practices and conservation.

Sustainable Agriculture:

India's agricultural practices, deeply rooted in its culture, often prioritize sustainability. Techniques like organic farming and crop rotation have been practiced for generations. These practices reduce the environmental impact of agriculture, aligning with modern ESG goals for responsible land use and resource management.

2. Social Responsibility:

Community and Family Values:

Indian culture places a strong emphasis on community and family bonds. These values translate well into ESG principles, particularly in the realm of social responsibility. Companies that invest in their employees' well-being, support local communities, and prioritize diversity and inclusion are in sync with Indian cultural values.

Philanthropy:

India has a rich tradition of philanthropy, dating back centuries. Concepts like "Dana" (charity) and "Seva" (selfless service) are deeply ingrained in Indian culture. Many prominent Indian business families and corporations engage in philanthropic activities, contributing to social causes, education, healthcare, and poverty alleviation. This aligns closely with the 'S' (Social) aspect of ESG.

3. Governance:

Ethics and Integrity

Indian culture places a high premium on ethics and integrity. Values like honesty, transparency, and accountability are considered virtuous. These principles resonate strongly with the 'G' (Governance) aspect of ESG. Companies that uphold ethical governance structures and maintain transparency in their operations are seen as upholding traditional Indian values.

Inclusivity and Equality:

The concept of "Vasudhaiva Kutumbakam" (the world is one family) from Indian culture reflects a sense of inclusivity and equality. Modern ESG principles emphasize diversity in corporate leadership and fair treatment of all employees. Indian companies that embrace these principles in their governance structures align with their cultural heritage.

Challenges and Opportunities:

While the alignment between ESG practices and Indian culture is evident, there are also challenges to overcome. India's rapid economic growth has at times led to environmental degradation and social inequalities. Balancing the need for development with sustainability and inclusivity is a challenge. However, it also presents an opportunity for Indian businesses to lead by example and demonstrate how ESG principles can coexist with growth.

Several Indian companies have embraced ESG practices, showcasing the synergy between ESG and Indian culture:

Hero Future Energies, a leading renewable energy company in India, has demonstrated a strong commitment to ESG principles. Their core business revolves around clean and sustainable energy generation. Hero Future Energies has invested heavily in wind, solar, and hydroelectric power projects, contributing significantly to environmental responsibility and the reduction of carbon emissions.

Their approach to social responsibility includes community engagement programs in areas surrounding their energy projects. These initiatives not only benefit local communities by providing access to clean energy but also align with Hero Future Energies' commitment to fostering social inclusivity and economic development.

In terms of governance, Hero Future Energies maintains a robust framework that prioritizes transparency, ethical conduct, and accountability. Their leadership team exemplifies diversity, and the company places a strong emphasis on employee well-being and safety, reflecting their commitment to the 'G' (Governance) aspect of ESG.

Hero Future Energies serves as an excellent example of how Indian companies can integrate ESG practices into their core operations while contributing to a sustainable future.

Conclusion:

The intersection of ESG practices and Indian culture presents a promising path toward sustainable growth. Traditional values of respect for nature, community, ethics, and inclusivity align seamlessly with modern ESG principles. While there are challenges, the opportunities for Indian businesses to lead in ESG adoption are substantial. By integrating ESG practices into their operations, Indian companies can not only drive sustainable growth but also preserve and promote their rich cultural heritage for generations to come. In this way, India can be a beacon of ESG success that the world looks to for inspiration and guidance in building a more sustainable and inclusive future.

Democratising the ESG investment - Empowering retail investors to utilise BRSR core ratings

Harish Ahuja, *Head - Product & Strategy, Development (Power & Carbon Markets), National Stock Exchange of India Limited (NSE)*
Angshuman Purohit, *Associate Vice President -Product Strategy & Development, National Stock Exchange of India Limited (NSE)*

Current Status of ESG in India – A Summary

Environmental, Social, and Governance (ESG) parameters and performance of listed companies in India are governed by the Business Responsibility and Sustainability Reporting (BRSR) framework as being defined by the Securities and Exchange Board of India (SEBI). In broad terms, the framework is a set of Key Performance Indicators (KPIs) under 9 ESG attributes.

It is also relevant to mention here that there are three ESG themed indices[1] maintained by NSE Indices Ltd. viz. Nifty100 ESG, Nifty100 Enhanced ESG, Nifty100 ESG Sector Leaders. Also, there are eleven currently available ESG-focused equity mutual funds schemes in India, the total Assets Under Management (AUM) for which has grown from $ 330 million in 2019 to $ 1.3 billion in June 2023[2].

Though the AUM may not be exceptionally large (in comparison to the total mutual fund AUM in India), it cannot be disputed that the trend of ESG responsible investing is fast picking up in India. Hence, it would be safe to say that ESG ratings are increasingly becoming crucial in today's financial structure, and that it motivates organizations to focus on each attribute or verticals of the ESG paradigm, so as to improve their ratings.

Generally available Structure of ESG reports

Currently, most ESG reports that are freely available to general investors, are published in the formats as used by the rating agency concerned. For instance, the following illustration shows how these reports can be in varied in terms of their data interpretation. Here, emphasis is being laid on such freely available reports to the public at large.:

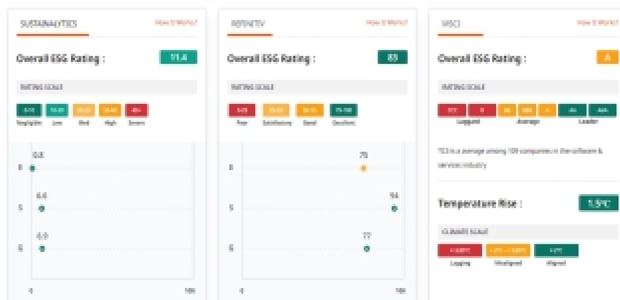
1. **Snapshot format with summary of scores[3]:**

[1] *https://www.niftyindices.com/indices/equity/thematic-indices*
[2] *https://economictimes.indiatimes.com/markets/stocks/news/esg-funds-assets-may-grow-30-every-year-for-a-decade-avendus/articleshow/103916575.cms?from=mdr*
[3] *https://www.spglobal.com/esg/scores/results?cid=4074634*

2. Tabular format[4]

Company Name	Sector classification	Listed/Unlisted	Environment Score	Social Score	Governance Score	ESG Score	Category
360 One Wam Limited	Financial Services	Listed	48	50	69	57	Adequate
3M India Limited	Industrial and capital goods	Listed	41	46	69	54	Adequate
Aadhar Housing Finance Limited	Lending	Unlisted	62	53	64	61	Strong
Aarti Industries Limited	Chemical	Listed	42	60	59	53	Adequate
AAVAS Financiers Limited	Lending	Listed	62	69	72	66	Strong
ABB India Limited	Industrial and capital goods	Listed	58	56	70	62	Strong
Abbott India Limited	Pharmaceuticals	Listed	60	62	70	65	Strong
ACC Limited	Cement	Listed	53	52	69	59	Adequate
Action Construction Equipment Limited	Industrial and capital goods	Listed	36	38	74	52	Adequate
Adani Enterprises Limited	Logistics	Listed	33	52	50	44	Below Average
Adani Green Energy Limited	Power Renewable	Listed	74	57	64	66	Strong
Adani Ports and Special Economic Zone Limited	Ports	Listed	33	57	57	48	Adequate
Adani Power Limited	Power Thermal	Listed	47	51	62	54	Adequate
Adani Total Gas Limited	Oil and Gas - Gas	Listed	45	51	70	57	Adequate
Adani Transmission Limited	Power T&D	Listed	61	57	65	62	Strong

A side-by-side comparison of the rating of the same company by various rating providers[5]



Utility of ESG ratings in the retail investors' decision making

It is a well appreciated fact that ESG ratings providers in India have made commendable efforts to develop ESG rating reports. However, these reports are typically presented in static PDF formats, bereft of any user-friendly analysis tools for use to the retail investor. While these reports are especially useful to large investors and fund houses who have access to their inhouse and expensive data analysis tools, the small investor loses out on this. These limitations severely restrict the ability of the average investor to interact with and utilize the data effectively. Investors are unable to perform essential tasks such as data sorting, in-depth analysis, and scenario assessments. This lack of interactivity hinders the decision-making process for small investors, preventing them from harnessing the full potential of ESG information to make informed and responsible investment choices.

To overcome these limitations, a tool is recommended through this article that aims to revolutionize ESG rating dynamics in India by addressing the above stated existing issues comprehensively. With this tool, investors will gain the capability to sort, visualize, and conduct scenario analysis on ESG data, thereby enhancing their decision-making process. This data analysis tool should be able to grant investors with the power of customizable data sorting, intuitive visualization, and tailored scenario analysis, enabling them to make informed ESG based choices of their own while doing investments.

[4] *https://www.crisil.com/en/home/what-we-do/financial-products/crisils-sustainability-solutions/esg-score-2022.html*

[5] *https://www.knowesg.com/esg-ratings/tata-consultancy-services-ltd*

Empowering the retail investor to truly utilize ESG Scores

In the above light, let's look at a few scenarios.

I. For discussion's sake, let's assume an investor interested in companies with the best performance score in employing divyang employees, gender parity and women in workforce themed scores of companies. There should be tools available to her that can instantly rank organizations based on the investor's ESG KPI of choice. Additionally, the tool should be able to support and perform more complex data functions.

II. Regarding data visualization, consider an investor seeking a clear overview of a company's social impact. The tool should be able to generate intuitive graphs and charts, translating complex ESG data into easily understandable visuals, enabling the investor to quickly grasp the organization's social performance.

III. For scenario analysis, envision an investor interested in evaluating the long-term impact of a company's governance practices. The tool can simulate various governance scenarios, projecting how different decisions may affect the company's ESG rating over time, providing valuable insights for investment strategies.

Now, could it be said that these scenarios are not at all 'ahead of its times', rather they are indeed valid questions that come to investors' minds? Perhaps yes! But non-availability of analysis ready data leads to non-adoption by investors, leading to a logjam situation.

By empowering investors with these capabilities, the tool not only fosters a more inclusive market structure with investments across all portfolios but also encourages organizations to target smaller, impactful KPIs. This, in turn, promotes holistic organizational development, aligning businesses with sustainability goals while enhancing their appeal to conscientious investors.

Concluding thoughts

It is obvious that the availability of analysis-ready reporting format is a basic prerequisite for the retail investor to incorporate ESG in her investment decision making process. It would serve the industry well to deliberate on this aspect of the ecosystem and come up with innovative solutions.

In short, the retail and DIY investors (and for that matter, comparatively smaller investment advisors and their ilk), must be empowered to use ESG performance of companies as a quantifiable factor in their investment decision making process.

We at NSE envision a participatory framework within the regulatory guidelines and activities permitted for Market Infrastructure Institutions (MII) in India. We do see a probable future wherein multiple such rating tools would be hosted at one place towards democratising ESG investing.

Can we visualise a day when fundamental analysis would be able to seamlessly incorporate ESG as an additional analysis factor, the way various company specific financial metrics are compared? Going further, can the classic OHLC and volume-based analyses also incorporate historical ESG scores in a meaningful way? Would this be called wishful thinking, or socially conscious capitalism? The jury is out!

Views expressed are personal.

FICCI

Does ESG make sense for India? Yes, it can—and here is how to get it right

Vivek Pandit, *Senior Partner, McKinsey & Company*

The idea of incorporating environmental, social, and governance (ESG) concepts into business is not new to India: many of our leading companies have done just that for decades. But making ESG a formal part of corporate thinking is relatively new, dating to about 2005. And it is growing fast, with global investment in ESG-related funds reaching almost $3 trillion. But in India, outflows from ESG funds are rising. Does this mean that ESG isn't suited to India? Or is it just one more corporate fad that is running its course? I don't think so. In fact, there is a strong business case that ESG, done right, can play an important role in advancing companies' strategy and purpose.

Companies do not exist in a vacuum. They are, in a sense, allowed to operate. This social license cannot be taken for granted. Companies that are believed to be acting in a way that hurts people, the planet, or the marketplace will pay a price-in the form of shareholders bolting or increased regulation or legal punishment. Trust is much more easily lost than built; a genuine commitment to ESG can help.

ESG can also help to create value. India is an excellent example of this. Over the last decade, renewable power capacity has quadrupled. India now ranks fourth globally in both wind and solar power, and more is on the way. The International Energy Agency projected last year that our renewable power capacity could double by 2026; it already accounts for about 37 percent of demand. Privately funded solar plants are cheaper to build than coal. All this is good for the environment, of course; it has also been good for shareholders. Foreign capital has funded a good deal of the investment, a sign that the economics work and that investors believe there is money to be made. With a national target of reducing carbon intensity 45 percent by 2030, investing in "E" looks like a very sound business proposition.

And it also works on the "S" part of the ESG equation. FICCI itself has estimated that almost 800,000 new jobs will be created just in utility-scale renewable projects in the pipeline; rolling out electric vehicles at scale could add another 150,000. And India's success in renewables, the result of effective regulation, private-sector investment, and technological skill, puts it in good position to lead in emerging energy sectors, such as energy storage, EVs, hydrogen and fuel cell technologies.

The "G" for governance is difficult to measure. Looking at related statistics, however, can help illuminate the challenges-and the opportunities. As reporting standards for ESG develops, strong governance will become even more important. According to Venture Intelligence, both the number of venture-capital deals and the amount invested fell by 60 percent and 79 percent respectively in the first half of this year. Behind closed doors, we are hearing that beyond concerns over

valuation, another reason for this is concerns over governance, specifically conflicts of interest and disclosure practices among early-stage businesses. Because more than 90 percent of alternative investment capital comes from outside India-funds that are necessary to finance energy transition-transparency , transparency and reporting on ESG measures is critical.

That is the case for ESG-that it can strengthen the social license to operate, reveal new sources of value, and improve access to multiple sources of capital. Getting it right requires thinking long term, which has its own benefits. In a study of 615 public companies from 2001-15, the McKinsey Global Institute found that those with a long-term view outperformed the rest in earnings, revenue, investment, and job growth.

So how can companies make ESG real? Obviously, no single approach will work for everyone. And it won't be easy. There are trade-offs, and even those companies that take ESG seriously will attract flak from critics who say they are not doing enough.

With those caveats in mind, the place to start is to look within. That means understanding the business-its purpose, the possible effects of its operations, and its particular strengths-and also what stakeholders want from it. Set your near- and long-term priorities accordingly. Keep in mind that this is a journey, and you will want to track progress (or lack of it). This is something that investors, employees, and customers alike want to see. Plus, racking up some quick wins internally can build momentum to do more difficult things.

Like other strategic initiatives, treat ESG as a portfolio of actions. Some will work but it is important to be e ready to revisit other initiatives if they don't. On a regular basis, examine your

ESG strategy and portfolio of related initiatives to evaluate if they are meeting its stated commitments.

Effective ESG performance management is not about sacrificing profitability for some vague sense of doing good. After all, unprofitable companies have a short life span-and thus are of limited value.

The concept of ESG has drawn criticism of late, some of it justified. ESG funds do sometimes fall short of performance benchmarks; standards can be murky; and claims may be oversold. It is surely right that India's regulators are requiring that ESG funds make their methodology clear. Moreover, it's important to remember that good companies may not sign up for ESG explicitly but actually walk the talk, delivering results on all three dimensions.

In the context of India, with our substantial human and environmental challenges, ignoring the principles of ESG would be an abdication of our responsibility, as citizens and as businesspeople. One way or another, ESG is here to stay. Companies that accept that, and integrate these principles into their strategy and operations, will put themselves in position to achieve truly sustainable growth-in every sense.

Initiatives of FICCI National Committee on ESG

FICCI National Committee on ESG was set up in October 2020 to mainstream ESG criteria by sensitizing companies about the evolving ESG landscape and advocating the need to subscribe to ESG parameters for long term value creation. Key initiatives undertaken by the committee are as follows:

1. **ESG Newsletter** – A tracker of news, views and trends on ESG is circulated on monthly basis for the benefit of FICCI membership and other stakeholders. The newsletter aggregates all important developments in the domain to bring its readers up to speed with all global and domestic happenings.

2. **Masterclasses, Training Sessions and Webinars** – Multiple informative and engaging sessions have been organised for sensitising membership about the various aspects of adoption of ESG parameters and how to address challenges associated with it. These sessions focused on the following themes-

   a. ESG - Capital Providers' Perspective

   b. ESG Disclosure Frameworks – Challenges and the Way Forward

   c. Importance of ESG for Boards

   d. Interaction with Professor CB Bhattacharya, H.J. Zoffer Chair in Sustainability and Ethics, Katz Graduate School of Business, University of Pittsburgh on how companies can use underleveraged "intangible assets" such as corporate identity, reputation, CSR and sustainability to strengthen stakeholder relationships and drive firm market value.

   e. ESG Narrative in India

   f. Masterclasses to increase awareness and understanding on relevance and requirements of ESG; SEBI's BRSR; ESG ratings; evolving global best practices

   g. Training Sessions on decoding BRSR Framework and getting compliance ready, offering practical tips and guidance on compliance issues and concerns arising from BRSR disclosures.

3. **Conference on 'Co-operation for Green Finance for a Better, Greener Future', organised by FICCI in partnership with the Embassy of India in the US : 19 – 20 July 2022**

To commemorate Azadi Ka Amrit Mahotsav, the conference was organized by FICCI in partnership with the Embassy of India in the US on the overall theme of 'India-US Economic Partnership: From Here to Where in Next 25 Years'.

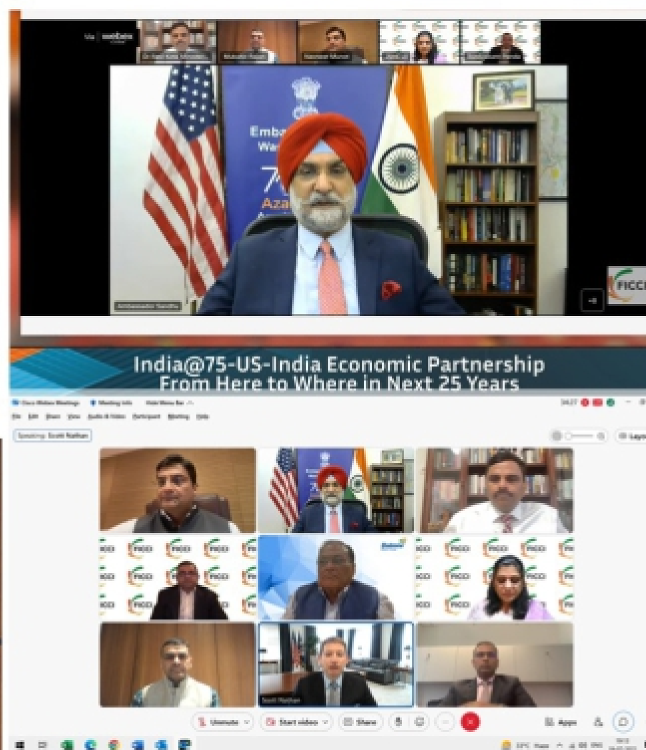
Organised with the objective of promoting greater co-operation between India and US on green initiatives, sessions were curated to showcase profitable investment opportunities in sustainable projects in

India which are aimed at increasing clean energy access and other green initiatives, aligned with the objective of advancing the green agenda.

Key speakers included H.E. Taranjit Singh Sandhu, Ambassador of India to the USA; Mr. Scott Nathan, CEO, U.S. Development Finance Corporation; Ms Chandni Raina, Economic Adviser, DEA, Ministry of Finance; Mr Dipesh Shah, ED (Development), IFSCA; Mr Subhrakant Panda, President, FICCI; Ms. Lida Fitts, Acting Deputy Assistant Secretary, Investment, Energy and Infrastructure, U.S. Department of Treasury and Dr Mukund Govind Rajan, Chairman, FICCI Environment Committee and Chairman, E-Cube Investment Advisors.

H.E. Mr. Taranjit Singh Sandhu
Ambassador of India to USA

Mr. Scott Nathan, CEO
U.S. Development Finance
Corporation

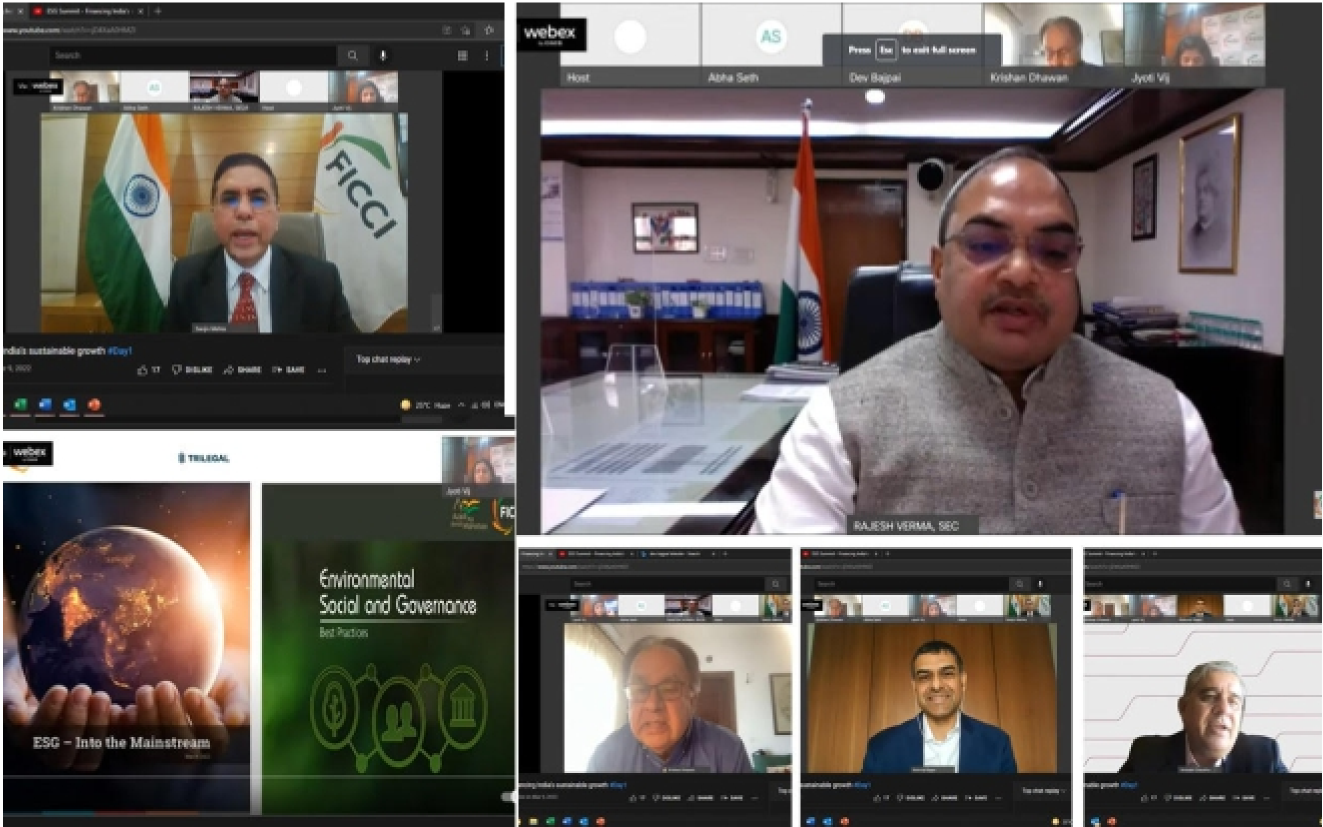


4 FICCI ESG Summit : 9-10 March 2022

FICCI's first ESG Summit was organised from 9-10 March 2022 in online mode. The theme of the summit was Financing India's Sustainable Growth. There were focused discussions on how banks are integrating ESG considerations in decision making, stakeholder management through reporting and timely responsiveness and accounting for past and future ESG problems.

Mr Rajesh Verma, then Secretary, Ministry of Corporate Affairs, Government of India joined the Inaugural Session as Chief Guest. The first edition of FICCI's Handbook of Best ESG Practices focussing on the FMCG sector and a FICCI-Trilegal White Paper ESG - Into the Mainstream were released at the Summit.

Other key speakers included Mr Sanjiv Mehta, President, FICCI; Mr Krishan Dhawan, Former Chairman, FICCI ESG Task Force; Dr Mukund Govind Rajan, Chairman, FICCI Environment Committee and Chairman, E-Cube Investment Advisors Pvt. Ltd ; Mr Amitabh Chaudhry, Chairman, FICCI Banking Committee and MD & CEO, Axis Bank; Mr Dev Bajpai, Executive Director- Legal and Corporate Affairs and Company Secretary, Hindustan Unilever Ltd; Mr Pawan Kumar, then Director, Department of Economic Affairs, Ministry of Finance.



FICCI ESG SUMMIT 2023

Creating Value Through ESG

https://ficci-esgsummit.com/