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ESG Investment: Pathway to a Sustainable Future

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Abstract- Sustainability in development refers to the process of meeting present requirements without compromising the capacity of future generations to meet their own needs. Sustainable investment is becoming more and more well-liked in India as more investors become aware of the potential for financial advantages while favourably impacting society and the environment. Several social issues affecting consumers, workers, and society were brought to the attention of investors and stakeholders, potentially leading to changes in public policy and legislation. By focusing on sectors that address environmental challenges, improve social development, and promote economic growth, sustainable investment is essential in accelerating India's transition to a more inclusive future. In order to benefit from sustainable investment prospects for social and economic transformation in India, investors, businesses, and governments must work together as responsible investing becomes more popular. This article presents an Environmental, Social, and Governance (ESG) viewpoint legal study of ESG investments in India.

Keywords: Sustainable Investment, Environmental Challenges, Social Development, Public Policy

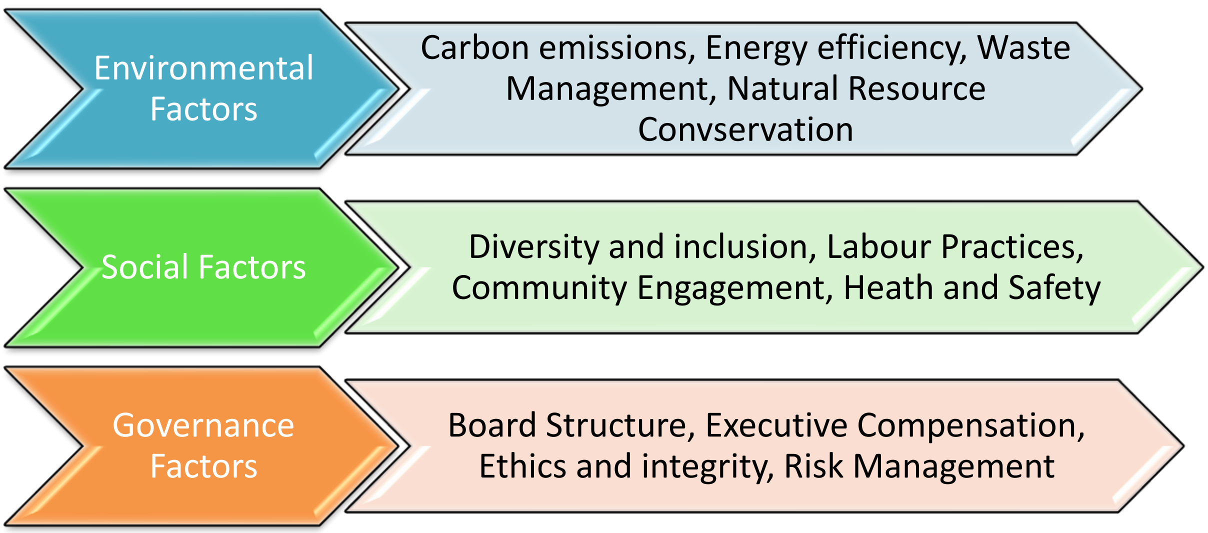
INTRODUCTION

The United Nations General Assembly established the Sustainable Development Goals (SDGs) in 2015 with the intention of providing a "blueprint to achieve a better and more sustainable future for all". The SDGs are a collection of 17 interconnected global goals, including, among others, ending poverty, promoting gender equality, providing access to excellent education, and creating sustainable cities. These SDGs are intended to be accomplished by 2030. Global alliances between governments, public-private partnerships, and interactions between the public and private sectors and civil society will.

Sustainable investing is becoming a powerful tool for promoting positive social and economic transformation in India. By incorporating environmental, social, and governance (ESG) factors into investment decisions, sustainable investing seeks to generate long-term financial returns while benefiting society and the environment.

ESG INVESTMENT

Sustainable investing is another name for ESG investing. It serves as a catch-all phrase for investments initiated by companies that use moral business practises to succeed. Stocks of businesses that don't adhere to certain environmental, social, or corporate governance norms are avoided by ESG investors. For instance, chemical corporations that heavily pollute the environment or businesses with unethical labour practises. As more investment funds are adopting this strategy recently, ESG investing has gradually begun to acquire popularity on a global scale.



With ESG investing, investors can choose their investments depending on the company's impact on the environment, the social sector, and governance. Retail and institutional investors can use a variety of ESG investing strategies to find assets that fit their sustainability criteria or to avoid companies that can be considered to be high-risk. Negative screening is one strategy where investors avoid businesses that do not adhere to ESG standards. Actively searching for firms or funds that are focused on conducting the research and include the top candidates that fit the ESG criteria might be another method of ESG investing.

In its Global Financial Stability Report (2019), the International Monetary Fund (IMF) admits that socially conscious screening raises volatility, but the overall performance of sustainable and conventional funds is still comparable. Contrary to other findings, investors that choose to maximise the social impact of their strategy experience a statistically significant reduction in expected return (Gasser, Rammerstorfer, and Weinmayer, 2016), according to their empirical investigation. Impact investing and SRI have no financial relationship to one another. They do, however, have the inherent benefit of bringing India closer to reaching the SDGs.

In its Climate Change Investment Research report, Deutsche Bank reviews 100 academic papers and comes to the conclusion that a strong commitment to ESG results in lower capital costs, lower interest rates on equity and debt, and superior market performance.

Bloomberg Intelligence estimates that by 2025, ESG assets would account for $53 trillion, or one-third of global AUM, of which 69% is broad ESG and 36% is focused on the environment, impact, or other subject. ESG integration is the most frequently mentioned sustainable investing method, according to the Global Sustainable investing Review 2020.

RISE OF ESG INVESTMENT IN INDIA

ESG investing, also known as socially responsible investment (SRI), is a term used to describe an investment strategy that takes environmental, social, and governance (ESG) considerations into account in addition to financial rewards. ESG investing aims to promote sustainable development, good outcomes, and financial goals. India has seen a noticeable increase in the amount of sustainable investment pouring in as both domestic and foreign investors have started to recognise the immense potential of sustainable businesses. Climate change, resource scarcity, social injustice, and subpar corporate governance put pressure on investors to look for opportunities that are in line with their values and yield beneficial results. Sustainable investing has become more popular as a result of the country's commitment to the UN's Sustainable Development Goals (SDGs).

ESG RATING

Investors must use environmental, social, and governance (ESG) scores to evaluate a company's performance in terms of sustainability and morality. A score of less than 50 is often regarded as rather low, whereas a score of more than 70 is regarded as good. These values normally vary from 0 to 100. A high ESG score for a business suggests effective management of these three variables and good performance. A poor ESG score is a sign that the corporation is unable to address these issues appropriately and may suffer losses as a result of legal lawsuits, environmental disasters, etc.

Source: Sustainability House

KEY DRIVERS OF ESG INVESTING IN INDIA

- Regulatory Support: By establishing rules requiring the top 1,000 listed businesses to disclose their ESG-related activities, the Securities and Exchange Board of India (SEBI) has significantly contributed to the promotion of ESG investing. These rules encourage businesses to adopt better ESG practises and increase transparency.
- Investor Demand: Institutional investors, asset management firms, and retail investors in India are all becoming more aware of the potential of ESG investment. The increased awareness of social issues, corporate governance crises, and climate change is what is driving the need for sustainable investing solutions.
- Business Opportunities: ESG investing offers significant business opportunities for Indian companies by enhancing operational efficiency, lowering risks, attracting capital from responsible investors, and gaining a competitive edge in the market.

POTENTIAL FOR SUSTAINABLE FUTURE

- Climate Change Mitigation: ESG investing can assist India in making a transition to a low-carbon economy and lowering its carbon footprint by allocating resources towards clean technology, sustainable infrastructure, and renewable energy projects.
- Social Impact: ESG investing supports businesses that place a high priority on social issues like community development, labour rights, diversity, and gender equality. This has a beneficial social influence and helps to develop a society that is more equal.
- Enhancement of Governance: ESG investing promotes businesses to implement strong corporate governance practises that promote accountability, transparency, and moral conduct. This increases investor confidence and aids in preventing business malfeasance and fraud.

BUDGET 2023

- Green Hydrogen Mission: The recently formed National Green Hydrogen Mission, with a budget of Rs 19,700 crore, will aid in the transition to a low carbon economy, lessen reliance on imports of fossil fuels, and establish the nation as a market and technological leader in this emerging industry.
- **Energy:** For priority capital expenditures in the energy transition and net zero goals, the Budget

2023 allocates Rs 35,000 crore. Battery Energy Storage Systems with a capacity of 4,000 MWH will be assisted with viability gap funding in order to guide the economy towards sustainable development.

- PM-PRANAM: The PM-PRANAM initiative, which stands for the PM Programme for Restoration, Awareness, Nourishment, and Amelioration of Mother Earth, will be introduced to encourage States and Union Territories to foster alternative fertilisers and balanced usage of chemical fertilisers.
- GOBARdhan Scheme: There will be 300 community- or cluster-based plants, 200 compressed biogas (CBG) plants, with a total investment of Rs 10,000 crore, 75 of which will be in metropolitan areas. There will be a 5% CBG mandate for all businesses that market natural and biogas. The proper financial support will be given for the distribution of bio-manure and the collecting of bio-mass.

BRSR FRAMEWORK

The Business Responsibility Reporting (BRR) Framework was created by regulatory authorities in response to the growing market demand for sustainable investing over the past ten years. This framework is in line with international commitments such as the Sustainable Development Goals, the Paris Agreement on Climate Change, and the National Voluntary Guidelines on Social, Environmental, and Economic Responsibilities of Business (NVGs). In addition, a committee was established by the Ministry of Corporate Affairs (MCA) in 2018 to update the BRR framework in accordance with the National Guidelines on Responsible Business Conduct (NGRBC). Consequently, the Committee released the BRSR based on ESG perspectives where it is applicable voluntarily for FY 2021–2022 and on a mandatory basis for FY 2022–2023 applicable on top thousand organisations which are listed in order to facilitate better reporting by the corporations.

Businesses are being urged by the Securities and Exchange Board of India (SEBI) to reveal detailed facts for sustainability and transparency. Top corporations must now make these disclosures under the Business Responsibility and Sustainability Reporting (BRSR) regulations. SEBI devised the BRSR core framework, which consists of nine key ESG factors. Transparent and trustworthy disclosure is just the beginning for a conscious ecosystem; improving ESG rating practises is crucial. Through its recently issued guidelines on the subject, SEBI addressed the standardisation, comparability, and efficacy of ESG ratings.

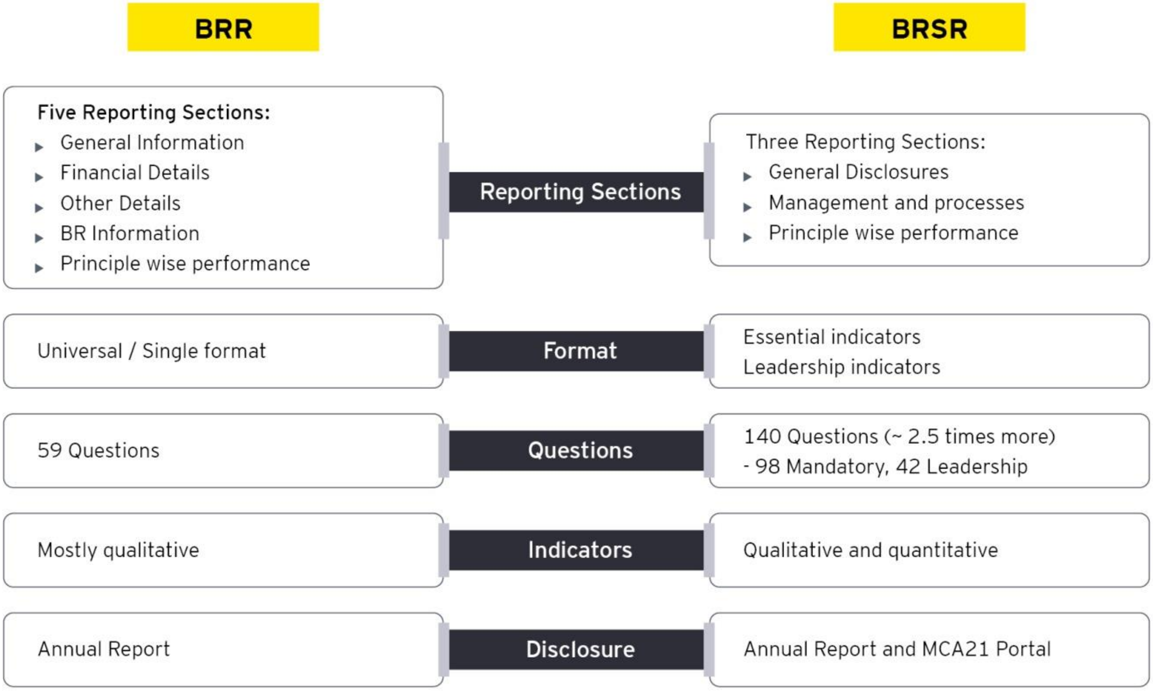
Structure of the Report:
Section A:
This contains information about the listed company, its activities, personnel, holding, subsidiaries, and affiliated firms (including joint ventures), as well as information about CSR, disclosure and transparency compliances, and its goods and services.

Section B:
It includes inquiries about management procedures, leadership supervision, and policy and governance.

Section C:
Disclosure of principle-wise performance is part of this. As a result, the businesses must disclose their KPIs in accordance with the nine basic principles, which are split into two groups.

1) Essential indicators (mandatory): These comprise the data on training programmes offered, environmental statistics on energy, emissions, water, waste, and social effect produced by the companies, as well as data on trash.
2) Leadership Indicator (Voluntary): Companies are required to monitor and analyse these voluntary leadership indicators in order to have a better understanding of their environmental practices. Life cycle assessments (LCAs), information on the policy for managing conflicts, further data on biodiversity, the breakdown of energy use, Scope 3 emissions, and supplier chain disclosures are some of the indicators.

BRRVs BRSR:
India's ESG reporting mandate was imposed by SEBI in 2012. The top 100 listed firms in India based on market capitalization were required by SEBI to submit a Business Responsibility Report (BRR), which is their form of ESG reporting. By 2021, BRR had changed into BRSR, a comprehensive framework for ESG reporting. Additionally, it has been successful in filling in the reporting's shortcomings in terms of accuracy and depth.



Source: EY India

CONCLUSION

Due to investor demand, legislative support, and the realisation of business potential, CESG investment in India is growing significantly. ESG investing can have a significant impact on the environment, society, and corporate governance practises as the nation works towards sustainable development. In the long run, BRSR framework will increase financial returns and enhance basic research and investment decision-making. It will also highlight the transparency of company practices related to ESG investments. Although ESG scores are a useful instrument for evaluating businesses' sustainability performance, investors should be aware of their limits and take them into account when making investment decisions, along with other considerations. India can pioneer the path for a sustainable future that combines financial rewards with the health of society and the environment by embracing ESG investing.

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