MSME DEVELOPMENT FORUM

CONSULTEPRENEURS
BEYOND CONSULTING

ESG NEWSLETTER

Wednesday 07.07.2023

Volume 2

Dear Members,

We are happy to share the second News Letter on Environmental, Social, and governance. Environmental, social, and governance (ESG) agendas are progressively gaining prominence among regulators, investors across the globe, corporate boards and G20 summits. There is an increased commitment of their portfolio to ESG considerations as evident from ESG Mutual Funds. At the same time, indictments of greenwashing have also amplified.

Greenwashing entails a marketing strategy to exploit environmentally or socially conscious stakeholders by disclosing untrue or deceptive information. SEBI introduced a Consultation Paper on ESG Disclosures to update Business Responsibility and Sustainability Reporting (BRSR) in terms of incorporating Key Performance Indicators on ESG information about ESG practices. Greenwashing is due to a lack of standardised ESG norms.

To curb the Green washing the G20-backed International Sustainability Standards Board has approved "global baseline" rules for firms disclosing how climate change affects their business.

Now the Government of India is also seriously concentrating implementing ESG in various sectors. Recently the Textile Ministry had informed that, the government will form an Environmental, Social, and Governance (ESG) taskforce for the textiles sector to enhance its credibility in view of India's own commitment to sustainability.

The ESG taskforce which will look at environmental, social and governance issues in the textile sector as credibility is becoming more and more important and exporters shared that they were getting twice the value for the same product if it is a sustainable product.

ESG investing also become more popular in our country.ESG investing has been around for over 50 years, and it's all about considering the impact of an investment on the environment, society, and governance.There is a host of mutual fund options available in the market. One such is also ESG funds which potentially offer the diversification, liquidity, and sustainability. The impact of investments in ESG funds revolves around environmental, social, and governance factors.

This Newsletterconsists covers articles on Environment, Social and Governance as well as the recent development with respect to Environment, Social and Governance.

Thank you

ADV CS MAMTA BINANI
+91 98310 99551
mamtabinani@gmail.com

CS G SRIRAM
QUALIFIED SOCIAL AUDITOR
SENIOR PARTNER
MAMTA BINANI & ASSOCIATES
+91 99946 69266
mamtabinaniandassociates@gmail.com

Who's driving the ESG mandate in the boardroom?

Sustainability is no longer an option. From regulatory requirements to stakeholder and customer demands, it is becoming an emerging need for businesses to incorporate such practices and to make the right disclosures.

Adhering to and adapting to the needs of the environmental, social and governance (ESG) criteria is, therefore, an increasing need in many large companies. Companies have to bring in the right measurement frameworks and regulators have to be alert to possible issues such as greenwashing.

In India, top listed corporations have to make the ESG disclosures as part of the business responsibility and sustainability reports (BRSRs). Meanwhile, as reported in ET Prime, the Securities and Exchange Board of India (Sebi) is also now looking at ESG disclosures and assurances from top 250 listed entities by market capitalisation for their entire value chains.

This expands the scope from direct carbon footprint of the company to a value chain approach to emissions. What that also means is that it cannot be treated as an additional task or one-off project, but requires sustained focus. This is a long-drawn-out process, involving also working with their supply chain partners in collecting and reporting data.

Their survey on disclosure management suggested that while chief sustainability officer was the answer for 42% of the respondents, about 37% suggested it is a role that CFOs are leading. Meanwhile, responsibility for the entire executive leadership team and the chief strategy officer were other top answers.

What was also clear is that for organisations with 5,000 or fewer people, the CFO leading ESG disclosures was more common while even larger companies seemed to be making the separate investment for a sustainability officer.

What does it mean in terms of required work and investments:
While aligning responsibility is a critical aspect, preparedness for ESG measurement is another area that needs to be addressed.

In the short term, it might mean more investments in ESG.

In fact, Deloitte's CFO Signals Survey in Q4, 2022, suggested that 49% of the CFOs look at an increase in investments in ESG initiatives.

In terms of investments, data quality and measurement methods are a big gap area, especially when it comes to the value chain reporting aspect.

Specialised ESG technologies, tools, dashboards for centralising data, energy monitoring systems for tracking energy usage and carbon impact are, therefore, gaining in relevance.

What skills are needed to drive this:
Apart from tools and technologies, CXOs in charge of this might also need to build capacity in terms of skills.
These include:

1. A clear understanding of the current and emerging regulatory requirements
2. Ability to manage the entire data collection and analysis process
3. Working across teams to ensure the ESG mandate finds support across the organisation
4. Bringing a strategic viewpoint based on the company's vision and plans instead of just treating it as a data reporting exercise
5. Ability to highlight potential gaps that need to be addressed
6. We expect the process of driving the ESG mandate and reporting on it to become a more strategic function within the boardrooms as sustainability requirements keep evolving. And maybe in the short term, the CFOs might be taking the lead in many cases.

SEBI proposals clear the air on ESG investments

Last month, the Securities and Exchange Board of India (SEBI) came out with a holistic regulatory framework for ESG disclosures by India Inc, investors, and rating agencies to facilitate a balanced approach to ESG.
"In order to enhance the reliability of ESG disclosures, the BRSR (Business Responsibility and Sustainability Report) Core should be introduced, which contains a limited set of key performance indicators (KPIs), for which listed entities must obtain reasonable assurance," SEBI said.

Quantifiable parameters
According to SEBI, initially top 150 listed companies will have to disclose and obtain a reasonable assurance on BRSR Core parameters from FY24 and that will be gradually extended to the top 1,000 listed entities by FY27.
The parametes are quantifiable under nine broad themes — such as change in GHG footprint, change in water footprint, investing in reducing its environmental footprint, embracing circularity (details related to waste management by the entity), enhancing employee well-being and safety, enabling gender diversity in business, enabling inclusive development, and fairness in engaging with customers and suppliers.

Under these themes, there are about 50 KPIs to facilitate comparability of the disclosures. The KPIs capture important metrics that are reflective of sustainable outcomes in companies.

The BRSR core contains factors that are relevant to both the manufacturing and service sectors and are more relevant especially in the Indian context, as attributes such as job creation and inclusive development are considered.
Besides, ESG disclosures and assurance (BRSR Core only) should be introduced for the value chain of listed entities, with certain thresholds that should be specified, SEBI said. To start with, SEBI said these requirements of disclosure and assurance should be applicable to the top 250 listed entities (by market capitalisation), on a comply-or-explain basis from FY25 and FY26, respectively.

Thinking desi
Considering that emerging markets have a different set of environmental and social challenges, ESG Rating Providers (ERPs) should be required to consider India/Emerging Market parameters in ESG Ratings.
"However, there would be no constraints on their issuing other/additional ratings as required by their clients," the regulator added.

SEBI also mandated ESG schemes to invest at least 65 per cent of AUM in listed entities, where assurance on BRSR Core is undertaken. Fund managers' commentary and case studies, which inter-alia highlight how the ESG strategy is applied on the fund/ investments, should also be disclosed.
These are all good initiatives by SEBI to improve credibility and address the risk of mis-selling and greenwashing, when ESG funds are attracting heavy inflow in recent times. Besides, the move will also help fund managers to look at the ESG concept holistically, especially in the Indian context, and boost ESG investing.
It's time for all stakeholders to pursue the agenda with a clear vision, to make ESG investing more understandable.

ESG investing takes hold in India, but what's next for investors?

ESG investments have gained significant impetus in India in recent years. By 2026, the projected global assets under management (AuM) of ESG-related investments are expected to reach $33.9T whereas in the Indian context, over 64% of investors are anticipated to increase their exposure to sustainable funds this year. This is despite the massive accusations of greenwashing in the country.

According to FIS' 2023 Global Innovation Report, 60% of financial services and fintech firms globally are developing new ESG products and services. While the momentum of ESG investments shows its growing appeal, the pace of change introduces challenges.

Governments, regulators and investors grapple with various issues relating to data, standards and definitions. Unfortunately, this lack of standardization around regulations, reporting, data collection, and marketing has led to companies using deceptive tactics to sell their investment products and mislead customers. Further, having many data types from disparate sources has also raised questions about the meaning, quality, reliability and timeliness of data that has significantly affected investor confidence.

The potential of the ESG sector in India is not debatable in any way. However, to fully realize this growth potential, it is crucial to address these challenges effectively.

Regulatory Concerns

One of the most significant drawbacks of the ESG sector in India is the need for more stringent government regulations regarding issuing and advertising these products.

Although there are a lot of different ESG rating frameworks that are currently approved by SEBI, none of them are standardised across the spectrum. Thus open to subjectivity and bias.

This is where a specialised and standardised ESG framework comes into play. A standardised ESG framework, will rate bond issuers on different parameters to ascertain if their sustainability claims are bonafide and restore investor confidence in the green investment sector. Here, the BRSR notification and SEBI framework for disclosures and reporting is a welcome move.

Along with the ASCI, this framework sets a strict mandate for adherence to ethical and moral practices amongst all ESG advertising, disclosures and reporting and provides investors with tools to gain more control over their investments.

Further, not only will does this framework help in risk assessment and establish clear communication channels between issuers and investors but also, gives investors an opportunity to exit 'green' investments wherein proceeds are not driven towards sustainable projects anymore.

The framework for Sovereign Green Bonds approved in November 2022 is also another landmark move focussed towards encouraging green investments in the country.

Technological Intervention

Another pressing issue in the ESG investing sector is its vast data and integrity. Nonetheless, technology is playing a massive role in addressing these challenges. For example, artificial intelligence (AI) and machine learning transform how information is processed and utilized across the financial services industry and business, making it much easier to comprehend and apply.

AI and machine learning are making it possible to connect and process disparate data sets that the ESG space mainly comprises, streamline the information digitization process, standardize and provide unique significant data types of insights. Therefore, we expect both technologies to be integral to ESG solutions or services.

Transformational technology: DLT

DLT – like blockchain technology, can potentially revolutionize the ESG sector by offering greater transparency, integrity, and efficiency. A prime example of this is in the structuring, issuance, and distribution of green bonds, which involves a complex and multi-stage process. The adoption of distributed ledger technology (DLT) can simplify this process by reducing the number of parties involved and permanently lowering operational costs. Additionally, smart contracts facilitate instant distribution, while the incorruptibility of DLT reduces the possibility of fraudulent activities, and settlement can be promptly executed through real-time or near-real-time payment systems.

Govt to form ESG taskforce, finalise contours of PLI scheme for country's textile sector: Piyush Goyal

The government will form an Environmental, Social, and Governance (ESG) taskforce for the textiles sector to enhance its credibility in view of India's own commitment to sustainability, Union Minister Piyush Goyal on Saturday.
Talking to reporters, the Minister of Commerce & Industry and Textiles also said that the contours of the Production Linked Incentive (PLI) scheme for the textile sector will soon be finalised and taken up for approval at the higher level.

The ESG taskforce which will look at environmental, social and governance issues in the textile sector as credibility is becoming more and more important and exporters shared that they were getting twice the value for the same product if it is a sustainable product.

"We have discussed that textile will also contribute to that and this group will come up with suggestions which will help the textile sector become more sustainable in their current operations and also look for more opportunities in sustainable textiles," said Goyal.
Goyal, who also holds the portfolio of Consumer Affairs and Food & Public Distribution, said that extensive discussions have been carried out both within the government and extensive stakeholder consultations over the issue of the PLI scheme in the textile sector.

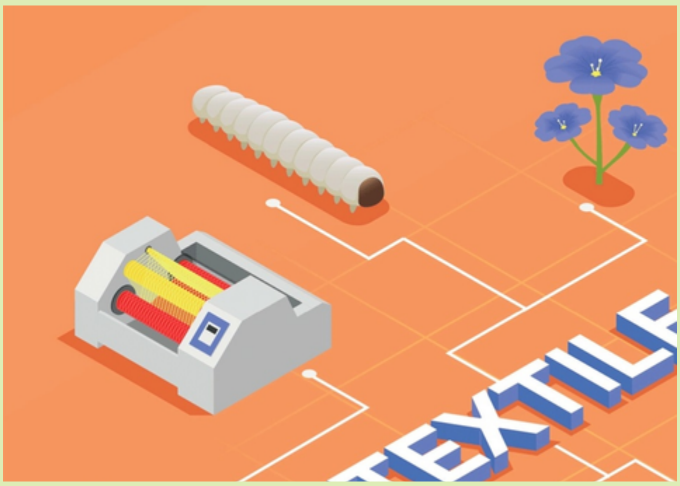
Goyal was in Rajkot to attend a 'Chintan Shibir', or brainstorming session on technical textiles and also attended the "Saurashtra Tamil Sangamam" organised in Somnath.

"At the Chintan Shibir, I have exchanged views about how we can expand, promote and support the industry to grow further. One of the areas of discussion was the PLI scheme, and I am quite confident that very soon we will be able to finalise the contours of the scheme and take it up for approval at the higher level," he said.
He said that reduction in Indian yarn export is a good sign for the country as this will provide more opportunities to Indian startups through value addition within the country.

Talking about the seven PM MITRA (Pradhan Mantri Mega Integrated Textile Region and Apparel) Park sites announced recently, he said that this will help realise PM Modi's conception of 5Fs -- farm to fibre, fibre to factory, factory to fashion, and fashion to foreign.

He said the scheme will help resolve the problem of scattered approach of the sector by bringing together all the aspects of 5Fs at one place. Sites have been identified and MoUs will be signed with the beneficiary states and master developers selected through a transparent process for the same, he said.
The seven PM Mitra Parks were selected in Gujarat, Tamil Nadu, Madhya Pradesh, Uttar Pradesh, Telangana, Maharashtra and Karnataka.
"We will try for fast development to provide 5Fs available at one place with all the facilities to reduce our logistics cost, increase productivity and production in India at a large scale, and meet the demands for the country and the world," the Union minister said.
Goyal said that Indian demand for yarn and finished products is growing significantly, both for domestic and export markets. If producers get a better value in the Indian market, they will prefer to sell the yarn in India which will be processed right up to the garment stage, he said.

"And that value addition is good for India. So wherever possible, value addition will create jobs, and give opportunities to our entrepreneurs, our startups. And therefore, if at all yarn export reduces, it is a good sign for us," Goyal said.
"Readymade garments, and finished value-added products increasing is really a strength of India which we want to encash. Similarly, our handicrafts and handlooms are also showing very good traction both in India and internationally," he said.
The textiles ministry in a release stated that Goyal emphasized the need for strengthening certification systems for organic cotton and requested industry for active participation in promotion of organic cotton production amongst cotton farmers.



Mutual funds: What are the benefits of investing in ESG funds?

There is a host of mutual fund options available in the market to browse and add to your kitty. One such is also ESG funds which potentially offer the diversification, liquidity, and sustainability. The impact of investments in ESG funds revolves around environmental, social, and governance factors.

Although ESG funds have been in India for over five decades, investment in this mechanism is still in the early stages with only a few AMCs offering the schemes. But ESG funds have a strong trajectory ahead and gaining popularity.

What are ESG funds?

According to Tejas Khoday, Co-founder and CEO of FYERS, ESG investing has been around for over 50 years, and it's all about considering the impact of an investment on the environment, society, and governance. It's a fancy way of saying that companies should be more responsible and moral towards the environment and society.

He added, this type of investing is becoming more popular, especially among millennials who care about the future. In fact, there's already $37.8 trillion invested in ESG funds, and this number is expected to go up to $53 trillion in the next few years globally.

However, in India, Khoday said, "ESG investing is still in its early days, with only a few schemes offered by AMCs. "

He pointed out that regulators are trying to create awareness and provide guidelines through different measures. But there are challenges, such as greenwashing, which makes it hard to assess the actual impact of ESG factors on financial performance. Companies need to step up and be more responsible for the sake of the future.

Here are some of the popular ESG funds currently available in the market:

Scheme Name - Direct Plan Growth Option	Fund Manager	Scheme Age in Yrs	AUM Trend over the Last 4 Yrs			
			FY20	FY21	FY22	FY23
SBI Magnum Equity ESG Fund	Rohit Shimpi	Existing scheme converted to ESG	2,038.9	3,518.1	4,582.7	4,411.7
Quantum India ESG Equity Fund	Chirag Mehta	3.8	12.4	37.8	58.0	61.2
ICICI Pru ESG Fund	Mittul Kalawadia	2.5		1,665.7	1,560.3	1,216.5
Kotak ESG Opportunities Fund	Harsha Upadhyaya	2.3		1,573.0	1,619.0	1,100.5
Axis ESG Equity Fund	Jinesh Gopani	3.2	1,553.9	1,903.6	1,897.5	1,460.6
Aditya Birla SL ESG Fund	Dhaval Gala	2.3		948.5	1,060.7	798.1
Quant ESG Equity Fund	Ankit Pande	2.4		15.5	52.8	155.9
Mirae Asset Nifty 100 ESG Sector Leaders FoF	Ekta Gala	2.4		106.5	140.6	117.0
Invesco India ESG Equity Fund	Taher Badshah	2.1		575.4	820.0	598.5
		Total	**3,605.18**	**10,343.98**	**11,791.58**	**9,920.05**

Source: ACEMF Nxt; Data as of March 2023

Why invest in ESG funds?

Khoday said, "investing in ESG funds can provide a way for investors to align their values with their investments, potentially improve financial performance, and manage risk."

Technically, ESG funds invest in companies that have a positive impact on society and the environment while avoiding those that engage in activities that are harmful.

"This can be particularly appealing for investors who want to make a positive impact through their investments," he added.

Further, Khoday said, ESG funds have shown strong financial performance in recent years. Companies that prioritize ESG factors tend to be more innovative and efficient, which can lead to long-term sustainable growth.

Additionally, companies that have a strong ESG profile are less likely to face legal and reputational risks that can negatively impact their financial performance and can help investors avoid companies that are at risk of legal or regulatory action, reputational damage, or financial instability.