

Saranghi, Gopal K.

**Working Paper**

## Resurgence of ESG investments in India: Toward a sustainable economy

ADB Working Paper, No. 1284

**Provided in Cooperation with:**

Asian Development Bank Institute (ADBI), Tokyo

*Suggested Citation:* Saranghi, Gopal K. (2021) : Resurgence of ESG investments in India: Toward a sustainable economy, ADB Working Paper, No. 1284, Asian Development Bank Institute (ADBI), Tokyo

This Version is available at:

<https://hdl.handle.net/10419/249463>

**Standard-Nutzungsbedingungen:**

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

**Terms of use:**

*Documents in EconStor may be saved and copied for your personal and scholarly purposes.*

*You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.*

*If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.*



<https://creativecommons.org/licenses/by-nc-nd/3.0/igo/>



**ADBI Working Paper Series**

**RESURGENCE OF ESG INVESTMENTS IN  
INDIA: TOWARD A SUSTAINABLE ECONOMY**

---

Gopal K. Sarangi

No. 1284  
August 2021

**Asian Development Bank Institute**

Gopal K. Sarangi is an assistant professor at the TERI School of Advanced Studies, New Delhi, India.

The views expressed in this paper are the views of the author and do not necessarily reflect the views or policies of ADBI, ADB, its Board of Directors, or the governments they represent. ADBI does not guarantee the accuracy of the data included in this paper and accepts no responsibility for any consequences of their use. Terminology used may not necessarily be consistent with ADB official terms.

Working papers are subject to formal revision and correction before they are finalized and considered published.

The Working Paper series is a continuation of the formerly named Discussion Paper series; the numbering of the papers continued without interruption or change. ADBI's working papers reflect initial ideas on a topic and are posted online for discussion. Some working papers may develop into other forms of publication.

Suggested citation:

Sarangi, G. K. 2021. Resurgence of ESG Investments in India: Toward a Sustainable Economy. ADBI Working Paper 1284. Tokyo: Asian Development Bank Institute.

Available: <https://www.adb.org/publications/resurgence-esg-investments-india-toward-sustainable-economy>

Please contact the authors for information about this paper.

Email: [gopal.sarangi@terisas.ac.in](mailto:gopal.sarangi@terisas.ac.in)

Asian Development Bank Institute  
Kasumigaseki Building, 8th Floor  
3-2-5 Kasumigaseki, Chiyoda-ku  
Tokyo 100-6008, Japan

Tel: +81-3-3593-5500

Fax: +81-3-3593-5571

URL: [www.adbi.org](http://www.adbi.org)

E-mail: [info@adbi.org](mailto:info@adbi.org)

© 2021 Asian Development Bank Institute

**Abstract**

ESG investments have attracted wider attention from both investors and customers worldwide. These investments largely follow a triple-bottom-line approach that combines financial returns with environmental and social norms. The study in this context carries out a detailed assessment of the ESG development and evolution trajectory in India, maps the legal and regulatory landscape governing ESG investments, and conducts a sustainability evaluation of a set of corporate entities. It uses a mixed-method approach for its assessment. The findings suggest that ESG integrated assets have outperformed their counterparts. In addition, it emerges from the analysis that companies have performed relatively better in policy disclosure and governance parameters of ESG integration than in environmental and social factors. The mapping of ESG policies and regulations reveals that there has been a gradual widening of scope of ESG policies and that the ESG policy environment is moving away from a voluntary regime to a mandatory one. Finally, the sustainability assessment of a select set of corporate entities indicates that, in terms of both ambitions and practices, they place disproportionate emphasis on environmental aspects of sustainability and neglect social dimensions, both in their declarations and in their implementations.

**Keywords:** ESG investments, ESG policies and regulation, sustainability assessment of corporate entities, India

**JEL Classification:** M14, Q56, Q01

## Contents

1.	INTRODUCTION.....	1
2.	MOUNTING ESG INVESTMENTS: THE GLOBAL SCENARIO .....	4
3.	ESG INVESTMENT LANDSCAPE IN INDIA.....	6
4.	LEGAL AND INSTITUTIONAL FRAMEWORK GOVERNING ESG INVESTMENTS IN INDIA.....	9
5.	ANALYSING THE SUSTAINABILITY INITIATIVES OF CORPORATE ENTITIES: SOME OBSERVATIONS .....	11
6.	CONCLUSION .....	13
	REFERENCES .....	15

# 1. INTRODUCTION

Recently, a transformation has taken place in the flow, pattern, and structure of investments, with a specific thrust on the sustainability of investments and ESG investments. This has been both a global and a domestic phenomenon, spreading across several economies in the world. It is increasingly apparent that investors are moving beyond the conventional norms of financial statements of business units and placing more emphasis on ESG investments (Bhavani and Sharma 2019). It seems that traditional financial metrics to weigh investments are increasingly inadequate and fall short of meeting the rising demand of investors and customers to extend beyond the monetary measures. It is also noticeable that conventional investments have always pursued a narrow self-interest and often left adverse environmental and social footprints (D'Souza 2020), hence the need to revisit them. Similarly, non-financial measures, such as environmental, social, and governance (ESG) factors, are high on investors' agenda when it comes to decision making (World Bank 2018).

Investment decision-making processes and investment analyses are increasingly emphasizing the sustainability of investments and adherence to environmental, social, and governance (ESG) norms. These forms of investments always involve a dichotomy between simple profit maximization and ESG integrated profit maximization options. ESG investments, often meaning socially responsible investments, have experienced rapid growth since the early 21st century. More precisely, it is possible to trace the genesis of ESG investments back to 2004, with the United Nations (UN) leading the initial initiatives in this regard. Incorporating ESG factors arguably has salutary effects on business entities in terms of enhancing their efficiency and productivity and supporting their long-term risk management. The literature has pointed out that ESG integrated corporate entities have generated more profits than non-ESG integrated corporate houses (Korwatanasakul and Majoe 2019). While a focus on financial investments could result in windfall short-term gains, an emphasis on ESG investments could enhance business sustainability in the long run. Such investments largely follow a triple-bottom-line approach that combines financial returns with environmental and social norms. While environment and social factors are important, at the same time, it is crucial to see how they integrate with business governance.

One of the crucial ingredients of sustainable investment is transparent ESG reporting and disclosure of information. While ESG reporting and disclosure have a legal standing in many countries, they are voluntary in nature in many others. The reporting and disclosure of information are vital for investors and customers to understand corporate houses' long-term business and investment strategies and assess their sustainability quotient. This information has become essential for investors to manage their investment risks and understand companies' strategy and purpose (PWC 2020). In fact, many scoring and rating systems have evolved in the past to offer an understanding of the ESG performance of companies in varying degrees and forms across countries.

A multitude of factors have contributed to such transformation in investment styles and patterns and have made it imperative to integrate sustainability elements into the conventional financial investment systems. Recent observations have indicated that corporations have become victims of poor governance systems, resulting in poor societal and environmental outcomes. Global examples of high-profile imprudent material environmental, social, and governance incidents, such as the Deepwater Horizon oil spill, Volkswagen's breaching of environmental norms, and Facebook's data privacy disclosure, are examples of such poor governance systems and structures,

reiterating the need to integrate the ESG factors into investment decision-making processes (United Nations Principles of Responsible Investment (UNPRI) 2020). The resurgence of ESG investments accelerated further with the global financial crisis of 2007–08, which forcefully proposed the imperative of implementing measures beyond the existing traditional financial statements and reporting structures of business units and corporations and devising alternative approaches to the conventional monetary approach. In fact, the financial crisis of 2008 ushered in a new era for ESG investment globally by questioning and revisiting the conventional financial investment patterns and mechanisms through the integration of the ESG principles into the investment domain. The introduction of new investment options and instruments built on the notion of ESG and catered to the overarching societal and environmental goals.

The increasing perils of the environmental and climate-related crisis have recently emerged as compelling factors for countries to mobilize private investors as important stakeholders in achieving the sustainable development goals (SDGs) by incorporating ESG factors into investment processes and investment decision-making systems. There is an expectation that business entities will play a pivotal role in and bear significant social and environmental responsibilities for taking appropriate measures to minimize the mounting environmental and societal crisis. In fact, growing environmental and climate concerns, such as the increasing GHG emissions, sea-level rise, increasing frequency of heat waves, and unmanageable waste generation, are posing threats to the sustainability of any economy. For instance, India is one of the most vulnerable countries to climate change and natural disasters (Eckstein et al. 2019). Similarly, a host of social factors, such as the violation of human rights and labor rights, rising cases of child labor, cases of gender inequality, and occupational health and safety concerns, have reiterated the importance of adhering to ESG principles in investment decision-making processes. Researchers have highlighted the increasing need to inform consumers and investors about the adverse impacts of exploitative labor practices, poor working and health conditions, and poor environmental management standards and practices of corporations and demanded that governments tighten the environmental standards and social policies for corporations and motivate them to adopt responsible business behavior and practices (Bansal and Gangopadhyay 2003; Ervin et al. 2012; Khanna and Speir 2013).

Further, various global declarations and global forums have emphasized ESG investments. The UN has taken leadership in this arena. Several key initiatives of the UN have clearly demonstrated the importance that it assigns to ESG integrated investments at the global scale. Initiatives such as the Principles of Responsible Investment (UNPRIs), UN Global Compact, and UNEP Finance Initiative (UNEP-FI) are evidence of such thrusts toward sustainable global transformation through ESG investments. More importantly, the declaration of the SDGs is a testament to such a global focus on ESG investments and the sustainability of investments. In addition, the SDGs reportedly place private investors in the central position in arresting and minimizing the growing environmental and social problems (Nemoto and Liu 2020). Several of these goals are likely to be met through private investments; hence, ESG investments can be a game changer in meeting the SDGs (Korwatanasakul 2020). Public financing sources alone arguably cannot meet the identified challenges through the SDGs; rather, they require active support from and participation of private investors. The UN's projections reveal that achieving the SDGs for developing countries requires investments of USD 3.9 trillion annually, and it expects that substantial investments will flow from impact investors to achieve such gigantic investments.

The strong linkage between ESG investments and macro-economic variables has also spurred the drive toward ESG investments. In addition, studies have pointed out the macro-economic benefits of such a transformation in the investment environment, with increasing recognition of ESG factors as crucial elements of investment patterns. For instance, they have posited that ESG embedded investments would result in the minimization of the default risk, hence reducing countries' cost of sovereign borrowing (Nemoto and Liu 2020).

In fact, globally, ESG investments have been gathering momentum and pace quickly in recent years. For instance, the number of PRI signatories within the UN is clear evidence of the global recognition of and thrust toward sustainable investments. The latest statistics suggest that the number of signatories has increased to 7000 across 135 countries. Regionally, the US, Europe, and Australia are steering such sustainable investments and are far ahead in the curve; however, some Asian countries, like Japan and Malaysia, are surging ahead. There is a further expectation that Asia, emerging as a global leader in the coming decades, should play a prominent role in the sustainable development agenda.

Globally, ESG investments soared to a new height of USD 34.7 trillion in 2018 in five major markets. ESG investments have grown 36% since 2016, and the flow is maintaining its upward trajectory (GSIA 2018). The US and Europe continue to be the largest contributors, and, within Asia and the Pacific, Australia, Japan, and New Zealand are the major contributors with a quickly expanding share. It is worth highlighting that ESG investments have experienced a dramatic rise even during the COVID-19 pandemic. Globally, equity funds with ESG mandates achieved a record jump to USD 168 billion in 2020, almost triple the figure in 2019 (Jethmalani 2021). Brandt and Srimurthy (2021) compared Socially Responsible Investing (SRI)/ESG equity funds with non-SRI/ESG funds, revealing that SRI/ESG equity funds have performed 4% better than their counterpart non-SRI/ESG funds on a continuous basis over the last 4 years. Historically, in terms of assets, ESG investments started with equity investment, with a recent focus on bond markets.

Though ESG investments are at a very nascent stage in India, they are increasingly gaining traction in the country. The thrust on climate-friendly investments and the focus on private sector investment for green energy in the country have primarily reinforced through recent policy push. Even the Economic Survey 2020–21 of the Government of India (GoI 2021) explicitly recognized the need to integrate climate and financial policies and identified a host of measures driving ESG investments in the country. However, the ESG investments in the Indian context have received scant research attention so far. There is a dearth of scholarly literature in this area, though some efforts have taken place under the larger umbrella of the sustainability of the corporate sector. In this context, this paper has the following set of research aims:

- To assess the ESG status, evolution, and development trajectory in the country;
- To map the legal, regulatory, and institutional landscape governing the ESG investment in the country;
- To present an analysis of corporate performance with integrated sustainability features.

The paper uses various secondary data and information for analysis. In addition, it examines sustainability assessment of a dozen corporate entities to identify the key sustainability characters and thrusts of these entities. It proposes a framework to capture the drivers of sustainability of Indian corporate entities and their dynamic



nature and character. It uses both qualitative and quantitative techniques for the analysis.

The structure of the paper is as follows. The next section maps the global ESG investment scenario. The third section offers a nuanced understanding of ESG developments in India. The fourth section presents the legal and institutional landscape of ESG investments in India. The fifth section contains a sustainability analysis of a dozen Indian corporate bodies, and the final section concludes the paper.

## **2. MOUNTING ESG INVESTMENTS: THE GLOBAL SCENARIO**

Globally, ESG investments have achieved momentum as a mechanism attracting both investors and consumers. There are at least three major direct drivers of such a rise in ESG investments. There is increasing recognition that integrating ESG factors could generate salutary effects on investors' risks and returns. The second important consideration is the aspirations of the beneficiaries and clients about the transparency of the money that companies are investing and the role that ESG investments can play in meeting these aspirations. The third important factor is very much connected with the increasing legal framework for ESG investments and the legal imperatives for such investments in various countries across the world.

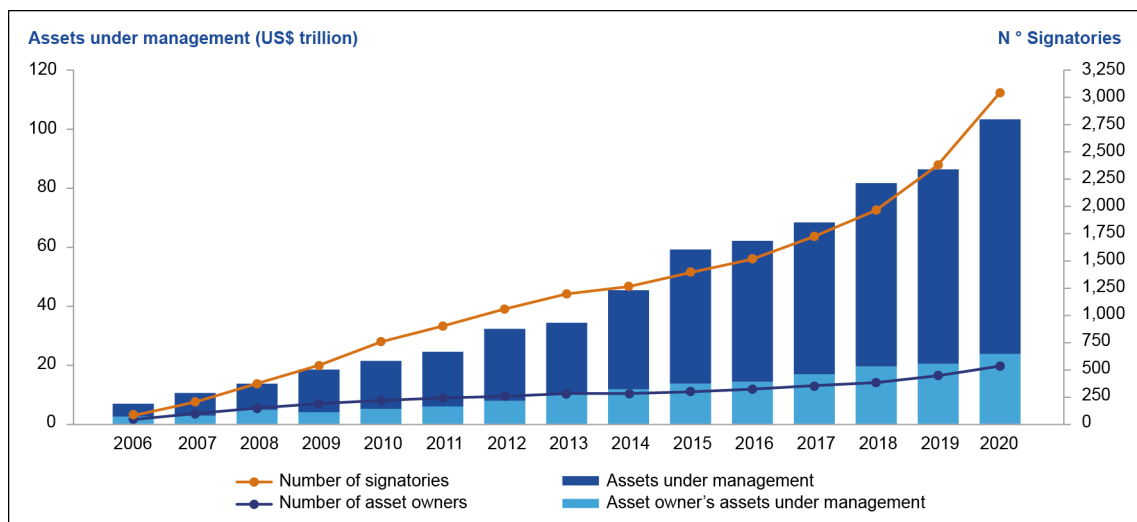
Observations have indicated increasing interest in ESG integration in investment decision-making processes worldwide, with an annual growth rate of 24%. Geographically, the US and Europe are the largest contributors (Korwatanasakul 2020). Though ESG integration has yet to accelerate in Asia, there has been a surging demand for ESG investments in Asian countries. Countries like Japan are the front-runners, and several other countries are extending their ESG investments. The Global Sustainable Investment Alliance (GSIA) reported that "do good" investment is rising fast globally and that investors consider it as a lucrative business option. Recent information from the MSCI indices has revealed that information technology (IT) as a sector has become the leader in integrating the ESGs into investment decision-making processes, followed by health care and the financial sector (Bhatt 2020). The declaration of the SDGs has further reinforced the need to drive investments in a more sustainable manner. Some estimates have suggested that the climate commitments that the Paris Agreement enshrines and the SDGs require investments of approximately USD 7 trillion per year. Importantly, there is an expectation that private finance and private investors will mobilize a substantial chunk of this investment. The available information indicates that the value of ESG investments globally has doubled in the last 4 years and reached a new high of USD 40.5 trillion in 2020. ESG integrated investment indices have even outperformed their peers during the COVID-19 period, which clearly implies that there is an increasing appetite for such investments among investors and business houses.

In fact, the UN has assigned primacy to ESG investments and has implemented several noteworthy initiatives in this sphere, starting in 2004. The UN's Principles of Responsible Investment (UNPRIs) institutionalized a network of ESG investors. The latest information reveals that the number of signatories in the UN PRIs has increased to 7000 across 135 countries (Figure 1). The UN has undertaken a host of other related initiatives to make signatories act as drivers of change, such as Climate Action 100+, which specifically aims to ensure that the 167 largest corporate GHG emitters take proactive actions to mitigate climate change. More than 500 investors with investment assets of USD 47 trillion aim to achieve net zero emission transitions under this

scheme. The benchmarks for companies within this action involve a range of sustainability indicators, such as ambition, target and goal, decarbonization strategy, capital alignment, climate support policy, governance, just transition, and reporting. Similarly, the PRIs actively encourage nation states to integrate climate change into their COVID-19 recovery process too. Related sustainability initiatives, such as the “UN Convened Net-Zero Asset Owners Alliance,” which launched in 2019, focuses on a variety of activities, such as monitoring, reporting, verification, and engagement with asset owners, managers, and corporations. The “Net Zero Asset Managers Initiative,” with its commitment to extending support for the net zero emission goals of 2050, is a similar initiative. This global initiative has allocated 9 trillion USD of assets to achieving the stated goals, and 30 signatories have joined it. The Sustainable Stock Exchange (SSE), which UNCTAD is promoting, has undertaken a similar effort to drive ESG investments. The primary goal of such a global platform is to improve the performance of stock exchanges in terms of sustainable investment. As a result of these initiatives, there has been a significant improvement in companies’ disclosure requirements with regard to the environmental and social impacts of their activities, initiatives and investments. In addition, to aid policy makers in the process, the UN has developed ESG policy toolkits to support policy makers of different countries in their effort to streamline their ESG policy making. Apart from the UN, several other initiatives are worth noting. For instance, RE100, a global initiative, aims to encourage business entities to commit to becoming green and procure 100% of their energy from renewables. Nearly 300 corporate houses have joined in this initiative so far, driving the transition toward sustainable sourcing of energy.

In addition, the Global Reporting Initiative (GRI) intends to introduce transparency and increase the impact of corporate entities by setting global standards and sharing sustainability reporting information with larger stakeholders, such as investors, policy makers, civil society organizations, labor organizations, and so on. It has created one of the largest networks of 10,000 GRI reporters, spread over 100 countries, to enhance the sustainability reporting among countries.

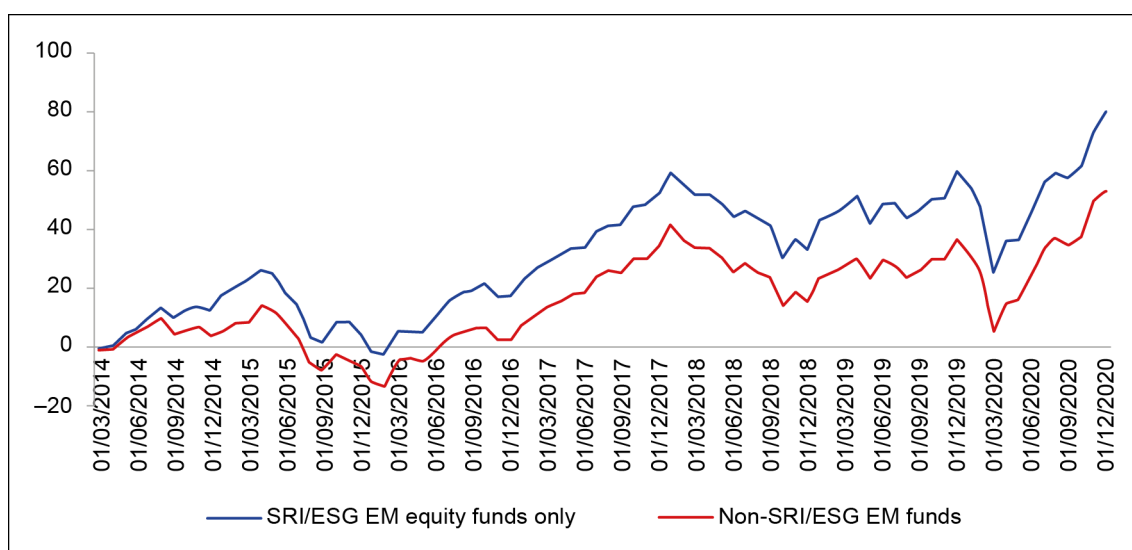
**Figure 1: Number of Signatories and Asset Owners**



Source: UNPRI (2020).

Studies also have reported a dramatic surge in investment assets with ESG embedded features. The latest available information shows that SRI/ESG equity funds almost doubled in 2020 and that SRI/ESG bonds similarly experienced a 100% increase. Importantly, equity and bonds with ESG embedded features have achieved better returns than their peers. In terms of sectors, technology, telecoms, and health care are the areas that have attracted most of the ESG equity and bond funds. The figure below (Figure 2) indicates that SRI/ESG funds have continuously outperformed their counterpart non-SRI/ESG funds in the last 6 years. Importantly, the trend has continued even during the pandemic.

**Figure 2: The Comparative Performance of SRI/ESG Funds versus Non-SRI/ESG Funds**



Source: Brandt and Srimurthy (2021).

It is possible to ascertain from the above that there has been clear emphasis at the global scale on promoting and accelerating ESG investments. The UN has taken special initiatives on ESG investments, and the declaration of the SDGs reflects the needs and priorities that the ESGs should emphasize. Importantly, the comparison of ESG integrated assets non-ESG assets shows that the former are better performers than their later counterparts.

### 3. ESG INVESTMENT LANDSCAPE IN INDIA

ESG Investments in India are at very nascent stage of development, though they have been evolving fast. Considering India’s developmental priorities, the integration of ESG elements into the investment decision making processes is becoming crucial to address the persisting societal conundrums and increasing environmental and climate threats (Gol 2021). This is also in sync with meeting the country’s SDG goals. Studies have pointed out that meeting the SDGs in India requires an annual investment of USD 0.6 trillion (Impact Investors Council (IIC) 2020). The current thrust on climate change and upscaling green energy investments clearly highlights the country’s focus on and need for ESG investments. The global commitments made by the country, such as reducing its carbon emissions by 30% by 2050 and procuring 40% of its energy from non-fossil fuel sources by 2030, are clear indications of its focus and the imperative to

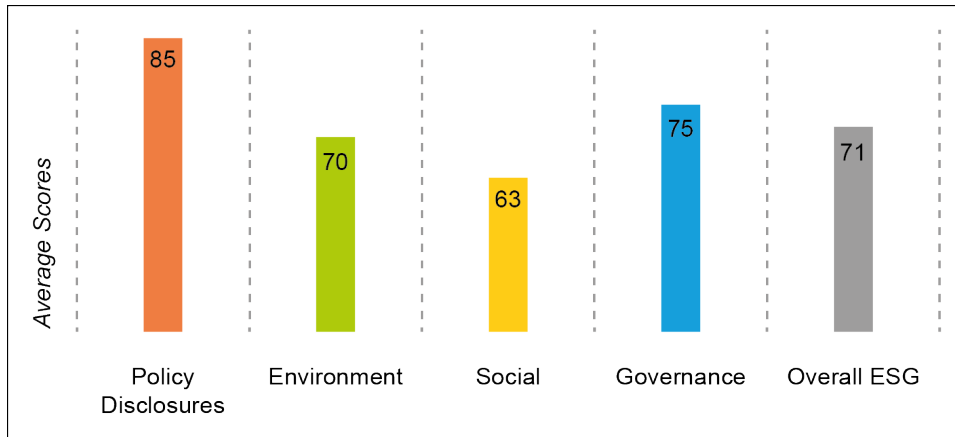
integrate ESG factors into the investment process. Recently, the Government of India has realized the importance of integrating ESG factors into business processes and has actively promoted this through various reforms and regulations. The latest development in this sphere is evident in the recent Economic Survey, which emphatically pointed out the need to streamline the financing for sustainable development (GoI 2021).

It is worth noting some of the sustainability initiatives that Indian corporate leaders have undertaken. One such initiative is the participation of Indian corporations in the RE100 global movement, which urges corporations to go green. This is also very much in line with the business value proposition of business entities in India as the industrial electricity consumption in India constitutes more than 40% of the total electricity consumption (Sarangi and Taghizadeh-Hesary 2021). Many Indian corporate houses, such as Infosys, Mahindra & Mahindra, Dalmia Cement, and Tata Motors, have become part of RE100 and have voluntarily committed to sourcing their energy from renewables (Mudaliar and Telang 2020). For instance, Dalmia company has committed to using entirely renewables by 2030. Businesses in India have realized the imperative of seizing the opportunity to tap renewables, and more and more corporate entities are adopting this approach. Similarly, under the corporate renewable power purchase agreements (PPAs), many Indian corporations are performing exceedingly well. India ranks as the second-largest market as far as the corporate renewable PPAs are concerned. Several Indian corporations also have found a place in the Dow Jones Sustainability Index. For instance, corporate houses such as Mahindra & Mahindra, Godrej Consumer Products, Infosys, Tata Motors, Glenmark, Havells India, M&M Financial Services, Hindalco Industries, Tata Steel, Tech Mahindra, and Wipro have become part of Dow Jones—an emerging market sustainability index. Similarly, several Indian companies have undertaken a host of voluntary initiatives. For instance, several cement companies in India have undertaken initiatives to generate energy from waste, and the electricity that they produce through this process will eventually reduce their reliance on fuels. A quick mapping of these sustainability initiatives of Indian corporations reveals that many of them are performing well in terms of reducing their carbon footprints by integrating green energy into their operations and adopting energy efficiency principles.

Indian corporations are increasingly integrating ESG factors into their business decision-making process. For instance, several asset management companies, such as Axis Mutual Fund, ICICI Prudential, and Aditya Birla Sun Life, have launched ESG integrated schemes (Jethmalani 2021) and are increasingly adopting ESG norms in their investment decision-making processes. Information from the National Stock Exchange (NSE) revealed that ESG indexed companies have fared well compared with non-ESG indexed companies.

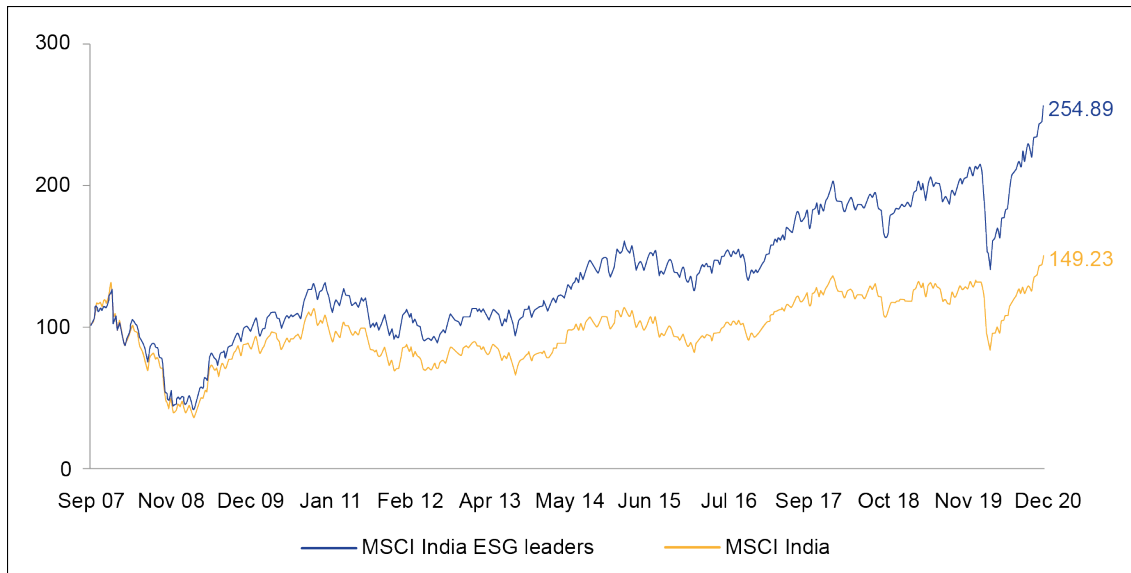
A study carrying out an evaluation of 50 listed companies in India revealed some interesting facets of Indian companies' ESG performance (NSE 2020). For instance, it finds that companies have performed comparatively better in terms of policy disclosures than other ESG factors, such as governance, environmental, and social factors. Governance as an ESG factor has emerged as the most prominent of all the factors, whereas social factors received the lowest priority. Further, of these 50 companies, the top three companies operate in the automobile, chemicals, and consumer goods industries, respectively, whereas metals and mining emerge as the bottom-most industry in terms of performance (Figure 3).

**Figure 3: Indian Companies’ Average Score for Various ESG Factors**



Source: NSE (2020).

**Figure 4: Comparative Performance of MSCI India ESG Leaders Index versus MSCI India**



Source: MSCI (2021).

A comparison between companies in the MSCI India ESG Leaders Index and their counterpart sector peers revealed that ESG integrated indices have performed better than their peers (MSCI 2021) (Figure 4). More importantly, the performance of ESG integrated indices continued to be better even during the COVID-19 pandemic. Several key corporate entities, such as Asian Paints, Axis Bank, Bharti Airtel, HCL Tech, HDFC, HUL, Infosys, Nestle India, Reliance Industries, and TCS, are positioned high on the MSCI Indian ESG leaders Index. Of the various ESG factors, the governance factor is emerging as a major contributor to the ESG performance of Indian corporations. A sectoral comparison of ESG performance indices revealed that the IT sector has emerged as a leader (with 26% weightage), followed by energy (close to 25% weightage). Hence, the IT and energy sectors are effectively integrating ESG factors into their investment plans and decision-making processes in a much better way than companies in other sectors (Bhatt 2020).

Another related area that has experienced some development is impact investing in India. The available information reveals that impact investors collectively were able to raise capital of USD 11 billion in the last decade (2010–20), covering more than 550 profit enterprising units and affecting about 500 million beneficiaries (IIC 2020). The beneficiaries are largely from low-income class communities. Key sectors attracting such investors are agriculture, health, education, energy, technology for others, and so on.

To summarize, (1) there is an increasing appetite for ESG integrated assets, and (2) the performance of ESG integrated investments is better than that of their counterparts. They even maintained consistency during the COVID-19 pandemic. Companies performed relatively better in policy disclosure and governance parameters than in environmental and social factors. Of all the factors, social factors have received the lowest priority.

## **4. LEGAL AND INSTITUTIONAL FRAMEWORK GOVERNING ESG INVESTMENTS IN INDIA**

Though ESG investments in India are at the budding stage, the government has implemented a host of policy and regulatory initiatives to drive them. Institutionally, the Ministry of Corporate Affairs (MCA) has assumed the stellar role in promoting sustainable investments in India, and from time to time it has produced policies and guidelines for corporations to adopt the Principles of Responsible Investment. The capital market regulator, the Securities and Exchange Board of India (SEBI), has supported the efforts of the MCA through its regulations on the matters of ESG investment in India. In fact, the MCA and the SEBI are working together to implement guidelines and regulations related to ESG investments in India. In addition, the government formed the Impact Investors Council (IIC), an industry representative body, to drive the impact investments in India and to represent the impact investors in the country.

One of the first initiatives in this direction was the “Voluntary Guidelines on Corporate Social Responsibility,” which the Ministry of Corporate Affairs (MCA) declared in 2009 to integrate sustainability into business practices and business decision-making processes. They identified six core elements as key sustainability practices for business entities to adopt. Around that time, in 2010, the Department of Public Enterprises (DPE) designed a CSR guideline to encourage central public sector enterprises to promote CSR activities. The Ministry of Corporate Affairs followed this with further guidelines, the “National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business, 2011” (NVGs), setting out the importance of the environmental, social, and economic responsibilities of corporate entities and the need to integrate them into business practices and investment decision-making processes.

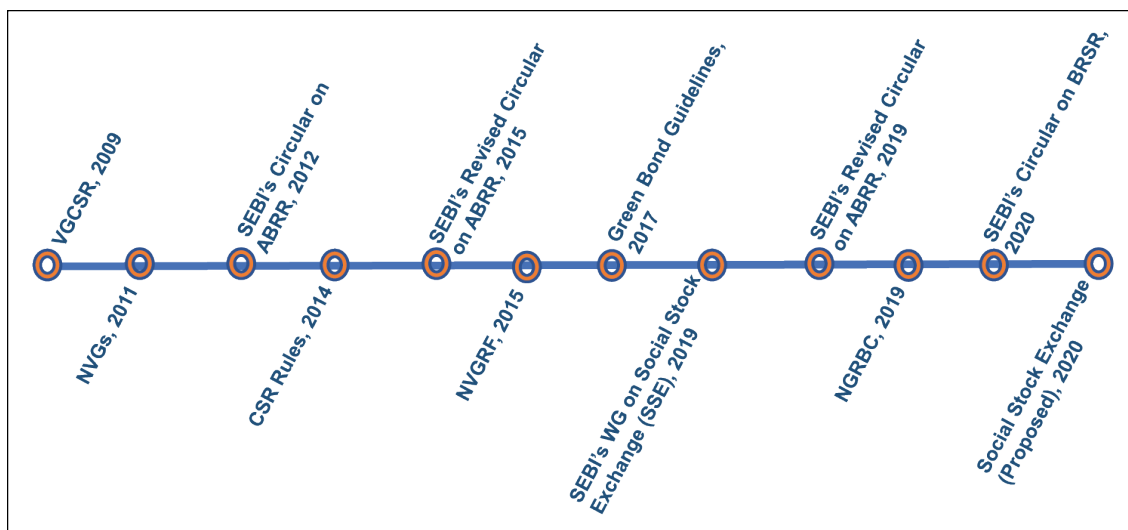
This promulgation of the New Corporate and Social Responsibility Rule 2014 prescribed under the Companies Act 2013 followed, and this clearly emphasized the need for ESG investments and the adoption of the ESG strategy. It mandated the spending of a minimum of 2% of the profits of corporate entities on various socially desirable sectors. A study carrying out a detailed mapping of CSR rules among Indian firms revealed that expenses under CSR heads largely occur in social sectors covering education, health care, community development, protecting the environment, protecting gender equality and skill development, and so on (Bansal, Khanna, and Jain 2017).

The next development in this respect was the pronouncement of the “National Voluntary Guidelines for Responsible Financing,” which the government announced in 2015. They aimed specifically to encourage the financial sector to adhere to the principles of sustainable business practices. The guidelines set out eight specific principles integrating various ESG aspects for financial sector enterprises to adopt and five key implementation modalities. A further development in this space was the declaration of the “National Guidelines on Responsible Business Conduct (NGRBC)—2019.” The purpose of these guidelines is to support business enterprises in adopting the principles of responsible conduct and responsible business behavior. In addition, the constitution of a dedicated committee took place in 2020 to develop the format for Annual Business Responsibility Reporting (ABRR) under the NGRBC Guideline. It involved a fresh reporting structure called the “Business Responsibility and Sustainability Report (BRSR)” to capture effectively the non-financial parameters of both listed and unlisted companies. The committee also proposed to use the information that the BRSR format captured for constructing sustainability indices.

Besides the above, from time to time, the capital market regulator, SEBI, has announced multiple circulars on various aspects of sustainability investment in the country and the reporting structure of such investments. For instance, the circular that it issued in 2012 mandates 100 listed companies to follow a proper reporting structure of their business through the “Annual publishing of Business Responsibility Report (ABRR)” format. The ABRR reporting structure intended to promote corporate entities’ adoption of the NVG principles that the MCA declared in 2011. Further, it extended the ABRR reporting structure to 500 listed companies in 2015–16 and to 1000 listed companies in 2019. In addition, it created the necessary regulations to facilitate the creation of green bonds or social impact bonds. For instance, the SEBI promulgated the Green Bond Guidelines in 2017, allowing the listing of green bonds on Indian stock exchanges. The latest available information shows that the issuance of global green bonds reached USD 1 trillion in 2020. A further development in this direction was the proposal to institutionalize a social stock exchange (SSE) within the purview of the SEBI to mobilize capital through social enterprises (GoI 2021). In this regard, the SEBI set up a Working Group in 2019 to propose the reporting structure as well as the disclosure requirements related to various aspects of ESG investments, such as financials, governance, social impacts, social auditing, and so on. Figure 5 presents a detailed map of the policy and regulatory framework governing ESG investment in India.

In addition to the guidelines and principles, the Government of India has undertaken a host of other initiatives to mainstream the ESG policy making in India. For instance, in 2015, the Reserve Bank of India (RBI) reported the inclusion of lending to social infrastructure and small-scale renewables within its priority sector lending items. This gained further impetus by doubling of the loan limit to these sectors to 300 million INR in 2020. India has also joined various global initiatives, such as the European Commission-led International Platform on Sustainable Finance (IPSF), as a founding member in 2019. The platform serves as a forum for driving environmentally sustainable finance.

**Figure 5: Map of the Policy and Regulatory Framework for ESG Investment in India**



Source: Author's compilation.

The assessment of the policy and legal pronouncements around ESG investing in India unraveled some interesting patterns and trajectories. First, the scope of policies has evolved over the years, in tune with the growing emphasis on ESG integrated investments; second, policies and regulations have become stringent over time, moving gradually from a voluntary regime to a mandatory one; and, third, the emphasis is more on reporting and disclosure of information by the corporate entities.

## 5. ANALYSING THE SUSTAINABILITY INITIATIVES OF CORPORATE ENTITIES: SOME OBSERVATIONS

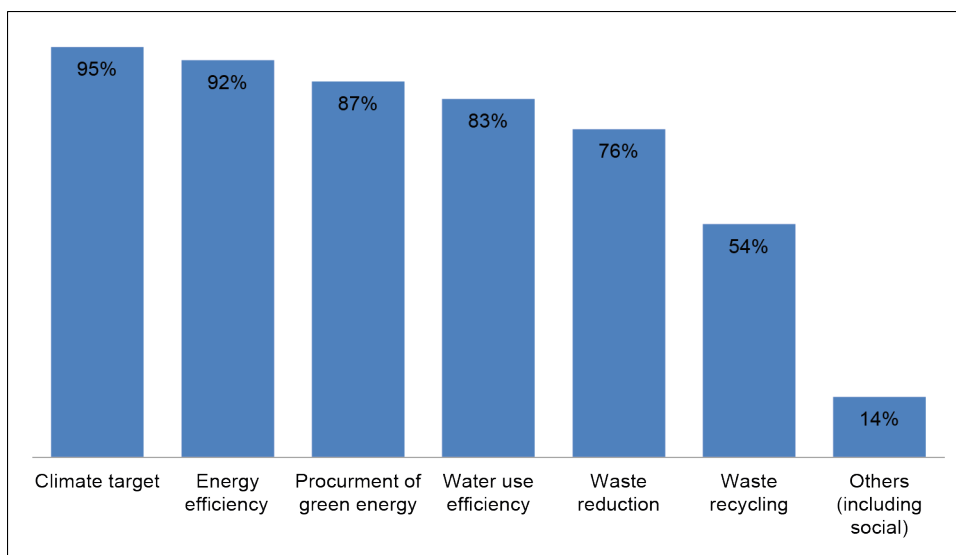
An assessment of a dozen Indian corporate entities has revealed some interesting facets of their sustainability initiatives. The common feature of the chosen entities is that most of these appear in various ESG integrated corporate indices database and have some ESG features.

A quick mapping of the sustainability initiatives unfolds that it is possible to structure these entities around four major action points. First, many of them have spelt out sustainability strategies, which are largely their vision statements to adopt various sustainability goals in the future. Second, most of them are members of various national and international business coalitions, which essentially reflect their commitments to achieving sustainable development in their business practices and business behavior. The third element is about key sustainability targets and goals, in relation to which these corporate entities have laid down their specific sustainability plans for the future based on key sustainability parameters. Finally, the fourth point concerns the sustainability practices that the companies have adopted. A detailed mapping of the sustainability strategies of these corporate entities revealed that, in most cases, the strategy statements involve offering mechanisms for integrating ESG factors into business practices and operations. A deep dive into the business coalition membership of these corporations indicated that they are part of various forums and platforms, such as their own industry groups and associations with sustainability implications or other external sustainability forums and platforms. For instance, Tata



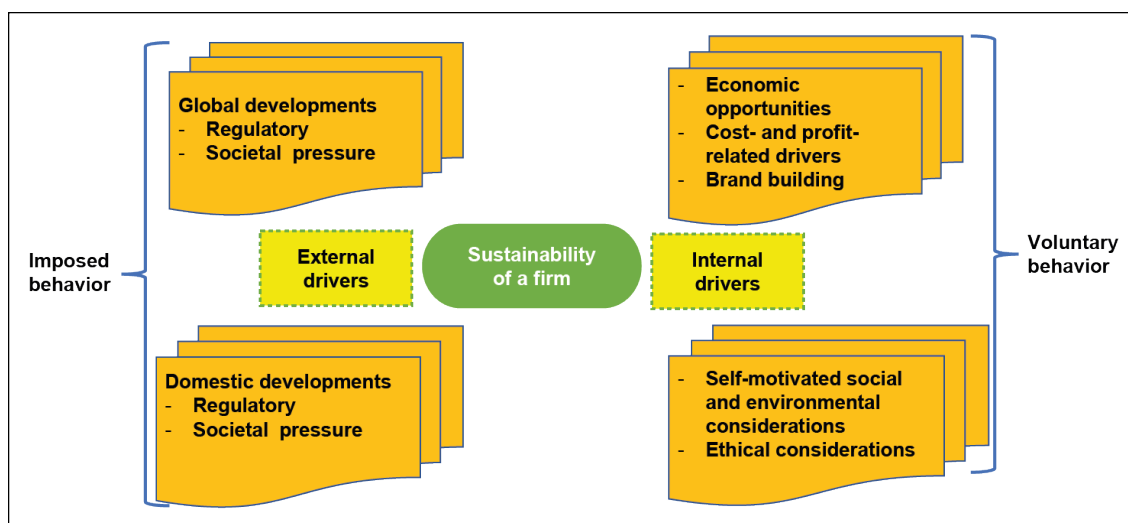
Steel is part of the World Steel Signatory Charter, ACC and Ambuja are part of the Cement Sustainability Initiative (which is part of WBCSD), and Dalmia is part of RE100 and EP100. In many cases, corporations have joined various forums voluntarily, without any mandatory compliance. For instance, many of them are members of the World Business Council for Sustainable Development (WBCSD) and some of them are part of RE100. Interesting findings emerged when mapping sustainability ambitions are examined in a detailed manner. Key environmental sustainability goals, such as the reduction of GHG emissions, enhancing energy efficiency, procurement of green energy, efficient use of water, waste management, and waste recycling, dominate the ambitions (Figure 6). However, it is also clear from the initiatives undertaken by Indian corporations that the social sector has been one of the neglected sectors in India and has not received mainstream attention in their sustainability efforts, though there have been some efforts at the CSR level in the social sector. It corroborates the findings of other studies, such as that by the NSE (2020). Finally, information on the adoption and implementation of sustainability practices indicates some visible progress, particularly in the domain of RE procurement, attaining the energy efficiency goals, and managing waste effectively.

**Figure 6: Sustainability Agenda of Corporate Entities in India**



Source: Author.

Drawing from the literature, coupled with review of ESG investment trends, and the sustainability analysis of a select set of corporate entities, the study proposes a framework that captures the dynamic nature of sustainability behavior and the drivers of companies' sustainability initiatives. It is possible to elicit from the framework that the sustainability performance of corporate entities is a function of multiple internal and external factors. The strength of these drivers will accordingly shape and characterize the sustainability of corporations (Figure 7).

**Figure 7: Framework for Assessing the Sustainability of Corporations in India**

Source: Author's compilation.

## 6. CONCLUSION

ESG investments have recently attracted wider attention from both investors and customers. These investments have largely followed a triple-bottom-line approach that combines financial returns with environmental and social norms. Many factors, such as rising environmental and climate threats, combined with increasing social conundrums and the need to drive the economy on a sustainable trajectory have evolved as compelling factors for accelerating ESG investments. In addition, companies are striving hard to map their goals with the declarations. The paper in this context has carried out a detailed assessment of the ESG development trajectory in India, mapped the legal and regulatory landscape governing ESG investments, and conducted a sustainability evaluation of a selection of corporate entities. It has employed a mixed-method approach for its assessment.

The findings are worth highlighting. It emerged from the study that there is an increasing appetite for ESG integrated assets in the country. This is apparent from the increasing interest of many mutual fund companies in such assets, as well as from prospective investors and corporate entities. The performance of ESG integrated investments in the country is better than that of their counterparts. Consistency in performance is observed even continued during the COVID-19 pandemic. Companies have performed relatively better in the policy disclosure and governance parameters than in the environmental and social factors. Of all the factors, social factors have received the lowest priority.

The assessment of policy and legal pronouncements around ESG investing in India unravels some interesting patterns and trajectories. First, the scope of policies has widened over the years, in line with the emphasis on ESG investments. Second, a gradual movement from voluntary regimes to mandatory regimes has characterized the evolution of policies. Third, there has been a recent emphasis on corporate entities' reporting and disclosure of information.

The evaluation of the sustainability initiatives of a select set of corporate entities indicated that key environmental sustainability goals, such as the reduction of GHG emissions, enhancing energy efficiency, procurement of green energy, efficient use of water, waste management, and waste recycling, dominate their ambitions, and they do not assign equal priority to the social sector component of ESG investments. This is also clearly in line with the findings of other studies, such as those of the NSE (2020). In addition to the above, information on the adoption of sustainability practices indicated some visible progress made particularly in the domain of RE procurement and attaining the energy efficiency goals and effective waste management.

Finally, the proposed framework captures the dynamic nature of the sustainability behavior and drivers of corporate entities. It shows that the sustainability performance of corporate entities is a function of multiple factors, internal as well as external. The strength of these drivers accordingly shapes and characterizes the sustainability of corporations.

## REFERENCES

- Bansal, S., M. Khanna, and S. Jain. 2017. "The Corporate Social Responsibility Act in India: An Early Assessment." South Asian Network for Development and Environmental Economics Working Paper 120-17. Kathmandu.
- Bansal, S., and S. Gangopadhyay. 2003. "Tax-Subsidy Policies in the Presence of Environmentally Aware Consumers." *Journal of Environmental Economics and Management* 45: 333–55.
- Bhatt, K. 2020. "ESG Investing Part 3: MSCI Exclusive—Dissecting the Indices." <https://www.timesnownews.com/business-economy/companies/article/esg-investing-part-3-msci-exclusive-dissecting-the-indices/657646>.
- Bhavani, C., and A. Sharma. 2019. *ESG Investment Scenario in India: Co-creating a Better Future, Responsible Banking*. YES Bank, Mumbai.
- Brandt, C., and V. Srimurthy. 2021. *SRI/ESG: Recent Trends in Emerging Markets Funds*. Informa Financial Intelligence (EPFR). [https://financialintelligence.informa.com/~media/informa-shop-window/financial/files/pdfs/epfr\\_esg\\_techpaper\\_2021\\_final.pdf](https://financialintelligence.informa.com/~media/informa-shop-window/financial/files/pdfs/epfr_esg_techpaper_2021_final.pdf).
- D'Souza, R. 2020. "Impact Investments in India: Towards Sustainable Development." ORF Occasional Paper No. 256, June 2020. New Delhi: Observer Research Foundation.
- Eckstein, D., V. Künzel, L. Schäfer, and M. Wingses, M. 2019. *Global Climate Risk Index 2020*, 20. Germanwatch. <https://germanwatch.org/sites/germanwatch.org/files/20-2-01e%20Global>.
- Ervin, D., J. Wu, M. Khanna, C. Jones, T. Wirkkala, and P. Koss. 2012. "Economic and Institutional Factors Affecting Business Environmental Management." *Business Strategy and the Environment*. <http://doi.org/10.1002/bse.1752>.
- Government of India (GoI). 2021. *Economic Survey Volume II*. New Delhi, India.
- Global Sustainable Investment Alliance (GSIA). 2018. *2018 Global Sustainable Investment Review*. Global Sustainable Investment Alliance.
- Impact Investors Council (IIC) & Asha Impact. 2020. *The India Impact Investing Story: Assessing a Decade of Capital Plus Innovation for Impact (2010–2019)*. New Delhi: Impact Investors Council and Asha Impact.
- Jethmalani, H. 2021. "Covid was a Booster Shot for ESG Theme as Funds Saw High Inflows." *Mint*. <https://www.livemint.com/market/mark-to-market/covid-was-a-booster-shot-for-esg-theme-as-funds-saw-high-inflows-11609868273888.html>.
- Khanna, M., and C. Speir. 2013. "Motivations for Proactive Environmental Management." *Sustainability (Switzerland)* 5 (6): 2664–92. <http://doi.org/10.3390/su5062664>.
- KPMG. 2019. *Impact of ESG Disclosures, KPMG, UK*.
- Korwatanasakul, K. 2020. "Environmental, Social, and Governance Investment: Concepts, Prospects, and the Policy Landscape." In *Environmental, Social and Governance Investment: Opportunities and Risks for Asia*, edited by Naoko Nemoto and Peter J. Morgan. pp. 1–31. Tokyo: Asian Development Bank Institute.

- Korwatanasakul, U., and A. Majoe. 2019. *ESG Investment: Towards Sustainable Development in ASEAN and Japan*. Tokyo: ASEA—Japan Centre.
- Mudaliar, A., and S. Telang. 2020. *Corporate Renewable Energy Sourcing: The Way to 100% Renewable Electricity in India*. Pune Maharashtra: Energetica India.
- MSCI. 2021. "MSCI India ESG Leaders Index." <https://www.msci.com/documents/10199/06d20a9e-bd6b-4ea8-a7a2-31cfb0444273>.
- Nemoto, N., and L. Liu. 2020. "Measuring the Effect of Environmental, Social, and Governance on Sovereign Funding Costs." ADBI Working Paper No. 1088. Tokyo: Asian Development Bank Institute.
- National Stock Exchange (NSE). 2020. ESG Analysis on 50 Listed Companies in India. Mumbai, India.
- PricewaterhouseCoopers LLP (PWC). 2020. *Mind the Gap: The Continued Divide between Investors and Corporates on ESG*. <https://www.pwc.com/us/en/services/assets/pwc-esg-divide-investors-corporates.pdf>.
- Sarangi, G. K. and F. Taghizadeh-Hesary. 2021. Rooftop Solar Development in India: Measuring Policies and Mapping Business Models. ADBI Working Paper 1256. Tokyo: Asian Development Bank Institute. Available: <https://www.adb.org/publications/rooftop-solardevelopment-india-policies-mapping-business-models>.
- United Nations Principles of Responsible Investment (UNPRIs). 2020. *Principles of Responsible Investment*. London: PRI Association.
- World Bank. 2018. *Incorporating Environmental, Social and Governance (ESG) Factors into Fixed Income Investment*. Washington, DC.