

ESG - A NEW PERSPECTIVE

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WHAT IS ESG?

Environmental, Social & Corporate governance (ESG) is an approach to evaluate the way in which a corporation works to achieve a certain set of environmental, social and corporate goals and responsibilities.



Factors in ESG- Image¹

A Company now not only has to focus on profit making but also engage in ascertaining its efforts in the above-mentioned Environmental & Social factors along with having good Corporate governance principles.

Now, let's understand how ESG impacts investor's choice.

ESG AND INVESTMENT

ESG investing refers to a set of standards for a company's behavior used by socially conscious investors to screen potential investments. It focuses on companies that follow positive environmental, social and governing principles.

When it comes to investing, a responsible citizen should evaluate target companies not only on the basis of financial parameters but also focus on the non-negotiable non-financial parameters. For the non-financial parameters, Environment empathy, Social responsibility and Corporate governance is a good start.

¹ Image - (Source: <https://www.fe.training/free-resources/asset-management/esg-analysts-in-asset-management/>)

ENVIRONMENT EMPATHY	SOCIAL RESPONSIBILITY	CORPORATE GOVERNANCE
<p>The melting glaciers, rise in average temperature globally have brought before us the pitfalls of global warming.</p> <p>The fast reducing forest cover, major rivers getting polluted and higher presence of pollutants in air are examples of ways mankind has and is neglecting the environment.</p> <p>However, there is still time. Brink of it but yet a few measures can save mankind. Measures such as switching to renewable energy, increasing green cover, better waste management and pollution treatment are all ways in which one can save the environment.</p>	<p>For running their business, corporates draw raw material and man power from the area in which they operate.</p> <p>While engaging with these resources, it is fair to expect the companies to handle resources in a fair, optimal and in a socially responsible manner.</p> <p>The Companies Act, 2013 mandates spending 2% of net profits towards social responsibility causes.</p>	<p>Corporate governance is all about integrity and honesty of the management. This aspect also has the potential to adversely impact investor's wealth creation prospects in the long run.</p> <p>Market regulator SEBI has, from time to time brought about regulations to be adhered by the listed companies.</p> <p>Also History has time and again shown that strict adherence to good policies result into sustainable growth.</p>

Bringing ESG into picture will enable the investor to look into companies which have adopted these principles. It is basically looking at a company's performance towards the benefit of society first and then other financial criteria. So, the schemes will focus on companies that adopt environment-friendly practices, follow ethical business practices and are employee-friendly among others.

WHY HAS THE TERM 'ESG' COME TO LIGHT?

ESG has not just appeared all of a sudden, it has been talked about since years. Then why it has gained all the attention now?

The answer to this is that modern investors, the new generation is re-evaluating traditional investment approaches and when they invest, they look at the impact it is having on the planet as a whole. This paradigm change is forcing corporations, investment companies and asset managers to realize that investors are no longer only worried about returns. As a result, asset managers have swiftly started incorporating ESG factors into the investment practices.

Even on the performance front, fund managers say that 'globally ESG non-compliant companies tend to perform poorly over the long-term. Due to issues such as a higher cost of capital, higher volatility due to controversies, labour strikes, accounting fraud, and other governance irregularities.

Globally, ESG is getting bigger with each passing year. There were over 3,300 ESG funds globally by the year 2020 and the number as a whole has tripled over the last decade. The value of global assets applying ESG for investment decisions by that year stood at \$40.5 trillion and as said is growing every year.

ESG – PRESENT STATUS AND INDIA'S UNION BUDGET 2023

"The Union Budget 2023 presented by Indian Finance Minister 'Nirmala Sitharaman' has taken significant strides towards promoting a green energy transition in the country. The Budget has allocated Rs 35,000 crore for priority capital investment towards energy transition and Net Zero objectives.

To strengthen the nation's renewable energy sector, the government has allotted Rs 10,222 Crore to the Ministry of New and Renewable Energy. The Centre had given Rs 6,900 Crore to the ministry in the previous Budget. This will help reduce reliance on fossil fuels and foster the use of clean and sustainable energy sources.

There is an uptick in the budgetary allocation for the solar sector. As opposed to Rs 3,365 crore in the last budget, solar power industry has received Rs 5,331.5 crore in this current budget, which includes funds for on-grid grid and off-grid projects.

One noteworthy announcement is the establishment of regulations for the Green Credit Programme, which will be governed by the Environmental Protection Act. This move will incentivise the distribution of additional resources and environmentally sustainable and responsive actions by companies, individuals and local bodies. “²

The minister herself said that the government is now focusing and eyeing more on green energy, green fuel, green farming, green mobility, green buildings and green equipments. This green growth will further reduce the carbon intensity of the economy and provide large scale green job opportunities.

For achieving the goal of a circular economy, the minister announced a new scheme called GOBARdhan (Galvanising Organic Bio-Agro Resources Dhan) with an outlay of Rs 10,000 crore. This will entail setting up 500 ‘waste-to-wealth’ plants, including 200 compressed biogas (CBG) plants and 300 community or cluster-based plants.

The minister said there would soon be a mandate of 5 per cent CBG for all organisations marketing natural and biogas.

RUB OF THE GREEN

Allocation to National Mission for Green India reduced to ₹220 crore, from ₹361 crore in last year’s Budget

Galvanizing Organic Bio-Agro Resources Dhan (GOBARdhan):
₹10,000-crore outlay

▶ 500 new ‘waste to wealth’ plants will be made

▶ Mangrove Initiative for Shoreline Habitats & Tangible Incomes (MISHTI)

▶ Funds from MGNREGS, Compensatory Afforestation Fund Management and Planning Authority Fund and other sources



Amrit Dharohar

▶ Optimal use of wetlands, biodiversity enhancement over next three years

Ramsar Sites

▶ Current: 75
 ▶ Before 2014: 24

Coastal shipping

▶ To be promoted as energy efficient and low-cost
 ▶ Deployed through public-private partnership mode with viability gap funding

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There are a few startups that follow net-zero carbon –

1. ‘Carbon Clean Solutions’ is a startup that has developed a technology for capturing carbon emissions from industrial processes. The company’s technology uses solvents to capture CO₂ emissions which can then be used for enhanced oil recovery, carbon storage or converted into valuable products.

² <https://planet.outlookindia.com/news/budget-2023-24-gives-boost-to-green-growth-news-414796>

³ Image - https://www.business-standard.com/budget/article/budget-2023-focuses-on-circular-economy-with-cross-sectoral-policies-123020101269_1.html

2. 'Terraview' is a startup that is using satellite imagery and machine learning to map and monitor carbon emissions from industrial facilities, power plants, and other sources. The company's platform provides real-time data on emissions, allowing companies to track their progress toward net-zero carbon.
3. 'Ather' energy is a startup that is focused on developing electric scooters and charging infrastructure. The company's scooters are designed to be sustainable and efficient with a range of upto 107 km. on a single charge.
4. 'SunSource Energy' is a startup that provides solar energy solutions for commercial and industrial customers. The company's solutions include rooftop solar panels, ground-mounted solar arrays and solar carports.
5. 'Smart Joules' is startup that provides energy efficiency solutions for commercial and industrial buildings. The company's solutions include LED lighting, HVAC optimization and energy management systems.

The growing woke for energy conservation and using methods for business which do not affect environment adversely is rising by each day. Pandemic and reduced transportation showed improved health conditions over cities like Delhi and other states showed that reduced carbon emissions is the way to lead the future and generations ahead.

Like a wise statement once read - "Blessed are those who plant trees under whose shade they will never sit". We have to think of the future and try our best not to leave the planet worse than we found it. We have to leave it better, we have to live better, we have to provide better, we have to do better, for ourselves, for the society, for the given life to us and our children and theirs and for the future to be breathable and enough of resources to survive and provide and leave the principles as we may adopt.

