



Towards Unified ESG Framework for India

This editorial is based on “[Lack of regulatory clarity could drive away private ESG finance for India](#)” which was published in Business Standard on 16/12/2024. The article brings into picture the global shift in ESG investing, highlighting the \$24 billion outflow from green funds in 2024 due to political resistance in the U.S. and India's missed opportunities caused by regulatory delays. It emphasizes the urgent need for India to adopt clear and harmonized ESG frameworks to attract sustainable investments.

For Prelims: [Environmental, Social, and Governance](#), [Business Responsibility and Sustainability Reporting](#), [Global Climate Risk Index 2019](#), [National Green Hydrogen Mission](#), [FAME II scheme](#), [Small and medium enterprises](#), [Environmental impact assessments](#)

For Mains: Evolution of ESG Regulation in India, Challenges Hindering Effective ESG Implementation in India

The global landscape of [Environmental, Social, and Governance \(ESG\)](#) reporting is undergoing a significant transformation, with nearly **\$24 billion exiting green-focused funds in 2024**. In the United States, political polarization and resistance from conservative states have contributed to a **cooling of ESG enthusiasm**. India stands at a critical juncture, having missed **potential billions in sustainable investment** due to bureaucratic delays and a lack of clear regulatory frameworks. As the global investment climate becomes more challenging, India must act swiftly to **develop comprehensive, interoperable ESG regulations** to remain competitive in the sustainable investment market.

What is ESG Reporting?

- **About: Environmental, Social, and Governance** is a critical framework for evaluating a company's sustainability and ethical performance across three key areas:
 - **Environmental Impact**
 - **Social Responsibility**
 - **Corporate Governance**
- Amid escalating global environmental and social challenges, **investors** and **stakeholders** increasingly demand businesses adopt responsible practices.
 - Strong ESG performance has become essential for long-term business success, risk mitigation, and enhanced investor confidence.



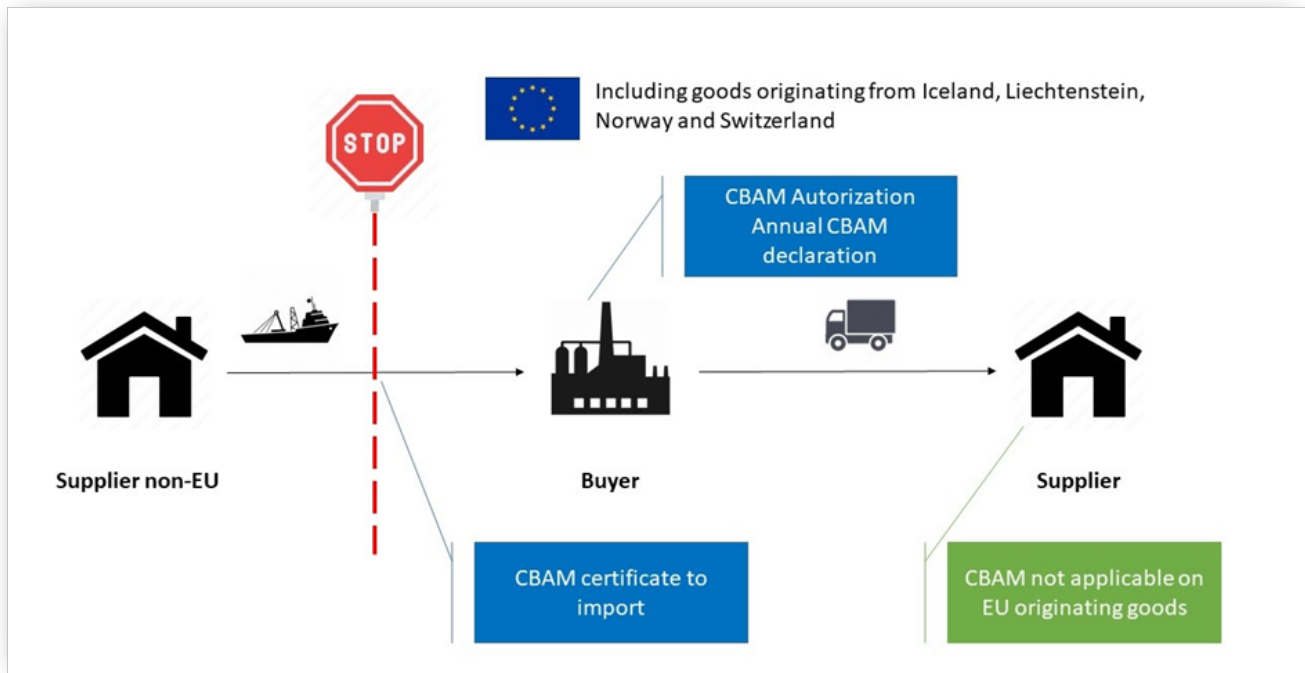
How ESG Regulations Evolved in India?

- **2009:** The Ministry of Corporate Affairs (MCA) issues the “**Voluntary Guidelines on Corporate Social Responsibility**”.
- **2011:** MCA introduces the “**National Voluntary Guidelines (NVGs) on Social, Environmental, and Economic Responsibilities of Business**”, offering a structured framework for reporting.
- **2012:** The Securities and Exchange Board of India (SEBI) mandates the **top 100 listed companies** (by market capitalization) to file the **Business Responsibility Report (BRR)**.
 - The BRR requirement is expanded to include the **top 500 listed companies** in 2016.
- **2019:** MCA updates the NVGs, renaming them as the “**National Guidelines for Responsible Business Conduct (NGRBC)**”.
- **2021:** SEBI introduces the [Business Responsibility and Sustainability Reporting \(BRSR\)](#) framework:
 - **Voluntary** adoption for the top 1000 companies.
 - Becomes **mandatory** from FY 2023.
- **2023:** SEBI launches **BRSR Core**, applicable to the **top 150 listed companies** (by market capitalization) starting FY 2024.

Why Robust Environmental, Social, and Governance Framework are Crucial for India?

- **Climate Crisis and India’s Vulnerability:** India is the **7th most vulnerable country to climate change** ([Global Climate Risk Index 2019](#)), with severe floods, droughts, and heatwaves disrupting lives and GDP growth.
 - India suffered an income loss of **\$159 billion, 5.4% of its gross domestic product**, in the service, manufacturing, agriculture, and construction sectors due to extreme heat in 2021.
 - Integrating **ESG principles ensures robust adaptation and mitigation strategies**.
- **Global Competitiveness and Trade Standards:** India’s export industries face increasing pressure to align with **ESG requirements as global markets**, like the **EU Carbon Border Adjustment Mechanism (CBAM)**, demand sustainable practices.
 - The CBAM will come into effect from **1st January, 2026** for **7 carbon-intensive sectors**, including **steel, cement, fertiliser, aluminium and hydrocarbon products**.

- India's **26.6% of exports of iron ore pellets, iron, steel, and aluminium** products go to the EU. These products will be hit by CBAM. Failure to adopt ESG would be a serious concern for India.



- **Economic Growth and Sustainable Development:** India's economic ambition of becoming a **\$5 trillion economy hinges on sustainable growth.**
 - ESG adoption in sectors like **manufacturing, energy, and real estate** ensures resource efficiency and long-term development.
 - Companies investing in **ESG frameworks**, like **Adani Green**, saw a **30% rise in clean energy production in FY24**, aligning profits with sustainability goals.
- **Energy Security and Green Transition:** India's heavy **fossil fuel import** dependency (**85% of oil and 50% of natural gas**) strains the economy and increases carbon emissions.
 - In **2023**, India became the **world's third-largest solar power generator**, surpassing **Japan**. Solar energy contributed **5.5% globally**, with India's production increasing significantly.
 - ESG accelerates the shift to **renewable energy**, enhancing energy security and job creation.
- **Job Creation and Green Employment:** Transitioning to **ESG-driven sectors** creates millions of jobs in **clean energy, waste management, and sustainable industries.**
 - India's transition to a green economy could contribute more than \$1 trillion in economic impact by 2030, as well as create over **50 million jobs**.
 - For example, the **National Green Hydrogen Mission** is alone set to create **6 lakh jobs**, while EV manufacturing under the **FAME II scheme** promised 10 million direct and indirect jobs by 2030.
- **Air and Water Quality Improvement:** India's cities face severe air pollution, impacting health, productivity, and life expectancy.
 - For example, **Delhi's AQI touched 400+ levels** frequently in 2024. **More than half of the rivers in India** are highly polluted with numerous others at levels considered unsafe by modern standards
 - ESG adoption promotes **clean energy, efficient industries, and better waste management**, which would ultimately lead to the reduction of pollution.
- **Corporate Governance and Risk Mitigation:** Strong governance under **ESG** ensures transparency, ethical business practices, and stakeholder trust.
 - Companies with sound governance have better stock performance and reduced risks.

- For instance, **SEBI's Business Responsibility and Sustainability Reporting (BRSR)** for top 1,000 companies improved corporate ESG disclosures, benefiting companies like **Infosys**.
- **Waste Management and Circular Economy:** According to a report by **Energy and Resources Institute (TERI)**, India generates over **62 million tons (MT)** of waste in a year.
 - Only **43 MT** of total waste generated gets collected, with **12 MT being treated before disposal**, and the remaining 31 MT simply discarded in wasteyards.
 - ESG focuses on **circular economy principles to minimize waste and maximize recycling**.
 - Companies like **Hindustan Unilever are now plastic neutral**, recycling more plastic than they produce, aligning with the **Extended Producer Responsibility (EPR) norms**.
- **Healthcare and Social Development:** ESG emphasizes the social component, driving investments in **healthcare, education, and community development**, critical for India's demographic dividend.
 - For example, **India's health expenditure increased to 2.1% of GDP in FY23**, but about **68% of India's population still lives in rural areas**, yet healthcare infrastructures in these areas are in pathetic condition, **requiring further ESG interventions**.
- **Investor Sentiments and Sustainable Finance:** Global investors increasingly favor **ESG-compliant markets**, and India needs sustainable finance to fund infrastructure and growth.
 - As of now, India is the **6th largest issuer of GSS+ (Green, social, sustainability and sustainability-linked) bonds in the Asia Pacific region**, with green bonds constituting more than **62% of overall GSS + bonds** issued in India, that demonstrate strong investor confidence in sustainable growth.

What are the Challenges Hindering Effective ESG Implementation in India?

- **Lack of Regulatory Clarity and Enforcement:** India's ESG framework lacks a **unified, legally binding structure, and enforcement mechanisms** are weak, especially for **small and medium enterprises (SMEs)**.
 - Companies often view **ESG as compliance rather than strategic change**, leading to superficial adoption.
 - For instance, **despite SEBI's BRSR mandate for top 1,000 firms**, many of listed SMEs struggle with ESG reporting.
- **High Cost of ESG Adoption and Limited Capital:** Transitioning to sustainable practices requires significant **financial investments**, making it infeasible for **cash-strapped industries**, particularly in energy-intensive sectors like MSMEs.
 - Lack of access to **affordable green finance** further exacerbates this issue. For example, ESG-related costs for industries like cement and steel can increase by **25-75%** (for green cement and green steel).
- **Insufficient Awareness and ESG Skill Gaps:** There is a lack of awareness and expertise among industries and investors, **especially in Tier-2 and Tier-3 regions**, where knowledge about ESG frameworks is minimal.
 - India's workforce also lacks technical skills to implement ESG strategies effectively.
 - Currently, the top 1,000 listed companies alone require around **5,000 mid-to-senior ESG experts** and potentially 100,000 additional professionals for junior teams, auditors, and partners.
 - With nearly **7,000 listed entities as of 2022** and a projected **10,000 by 2032**, India will need over 1 million ESG-ready professionals.
- **Weak Infrastructure for Renewable Energy Transition:** India's ambitious energy transition goals are **hampered by poor infrastructure, grid limitations, and inconsistent policies**, especially in rural and industrial belts.
 - Industries find it challenging to rely on renewables for steady power supply.
 - Despite India's **renewable capacity reaching 203 GW (October, 2024)**, transmission losses remain at **15-17%**, and rural areas lack access to clean, affordable energy.
- **Balancing Economic Growth with ESG Goals:** India's developmental priorities, like **industrialization and job creation**, sometimes **clash with ESG objectives**.
 - Industries often prioritize profits and short-term growth over sustainability, slowing down

ESG adoption.

- For instance, **coal continues to contribute 50% of India's energy needs**, with **new thermal plants** being approved (like **Amarkantak Thermal Power Station**) to meet energy demand despite climate concerns.
- **Resistance from Traditional Industries:** Industries like **steel, cement, textiles, and mining**, which form India's economic backbone, face significant resistance to adopting ESG due to **outdated processes and profit-driven models**.
 - Transitioning to clean practices threatens competitiveness and profitability. For instance, the **cement sector contributes 8% of global CO₂ emissions**, but switching to alternative energy sources increases production costs.
- **Social Inequality and Poor Workforce Conditions:** India struggles with deep socio-economic inequality, where **ESG implementation in labor practices is often overlooked**. Millions of workers in informal sectors lack access to fair wages, healthcare, and safety norms.
 - For example, **90% of India's workforce remains in the unorganized sector**, and sectors like construction still report significant workplace safety violations.
- **Environmental Policy Gaps and Delayed Implementation:** Despite progressive policies, India faces delays and inconsistencies in implementing environmental regulations due to bureaucratic hurdles and weak monitoring.
 - Projects often bypass **environmental impact assessments (EIAs)** like **2020 Vizag Gas Leak in Visakhapatnam, Andhra Pradesh**, underscoring the urgent need for stricter enforcement, timely clearances, and robust accountability mechanisms.
- **Investor Reluctance and ESG Misalignment:** Indian investors often prioritize **short-term financial returns**, viewing ESG as secondary to profits.
 - The study revealed that **80% of Indian investors** have adopted sustainability policies, with **only 14% implementing them for over 5 years** and **58% for more than 2 years**.
 - There is also a lack of alignment in measuring ESG performance against financial outcomes.

What can India Learn from other Countries Regarding ESG?

- **Adopting Stringent ESG Regulations- EU's Green Deal:** The **European Union's Green Deal and Carbon Border Adjustment Mechanism (CBAM)** ensure strict accountability, incentivizing companies to prioritize sustainability and innovation.
 - India can learn to implement binding regulations and penalties for non-compliance to prevent greenwashing.
- **Promoting Green Finance - Germany's Sustainability Bonds:** Germany leads in green finance with bonds like **green "twin bonds"**, attracting massive investment for renewable energy and infrastructure projects.
- **Transparent ESG Reporting - Japan's Disclosure Standards:** Japan mandates clear, standardized ESG disclosures under its **Corporate Governance Code**, improving investor trust and corporate accountability.
- **Skill Development for ESG Transition - Denmark's Workforce Model:** Denmark focuses on skill development for a **green workforce**, offering training programs to transition workers into sustainable industries like wind energy.
- **Decentralized Renewable Projects - Africa's Community Solar Grids:** Countries in Africa are implementing **decentralized solar grids**, ensuring energy access for rural communities and reducing energy poverty.
 - India can replicate decentralized renewable models to power its remote regions sustainably.

What Measures can India Adopt to Enhance the ESG Framework?

- **Create a Robust and Unified ESG Framework:** India should design a **comprehensive, unified regulatory framework** applicable across all sectors, including MSMEs, to ensure consistent ESG implementation.

- This framework must **define sector-specific ESG goals**, clear reporting guidelines, mandatory disclosures, and penalties for non-compliance.
- Additionally, **a single oversight body like an ESG Regulatory Authority** can streamline enforcement and provide industry-specific guidance to prevent ambiguity.
- **Scale Up Green Financing Initiatives:** To enable smooth ESG adoption, India must **prioritize scaling up green financing** through mechanisms like sovereign green bonds, ESG-linked loans, and dedicated green finance institutions.
 - **Tax incentives, low-interest loans, and subsidies** for ESG-compliant businesses will attract investors and industries to transition sustainably.
 - Collaborations with private financial institutions to create **Green Transition Funds** can further ease access to capital for MSMEs and large industries alike.
- **Promote Adoption of Circular Economy Models:** India must **move towards a circular economy** by promoting sustainable production, resource efficiency, and waste minimization.
 - Initiatives like **Extended Producer Responsibility (EPR)** for industries such as plastic, electronics, and automobiles should be rigorously enforced.
 - Furthermore, **incentivizing waste-to-energy projects**, recycling ecosystems, and re-manufacturing industries can help reduce landfill pressure and improve resource sustainability.
- **Strengthen ESG-Linked Public-Private Partnerships:** India should enhance **Public-Private Partnerships to accelerate ESG-related projects** in sectors like renewable energy, urban infrastructure, and environmental conservation.
 - Government schemes like the **Production-Linked Incentive (PLI)** can include ESG components to attract private sector participation in cleaner production.
 - These partnerships can **prioritize investments in large-scale solar and wind farms, green urban transport, and carbon-neutral industrial hubs.**
- **Implement Carbon Pricing and Taxation Policies:** India must adopt a carbon pricing mechanism, including **carbon taxes or an emissions trading system**, to hold industries accountable for their **carbon footprint** while incentivizing greener alternatives.
 - Revenue generated from carbon taxes can be **reinvested into clean energy infrastructure and technology.**
 - Linking carbon pricing with existing programs like the **Perform, Achieve, Trade (PAT) scheme** can ensure sector-wide accountability.
- **Build ESG Awareness and Industry Capacity:** India needs to **roll out extensive ESG awareness programs** and skill-building initiatives to empower industries, particularly MSMEs and rural sectors.
 - Including ESG-specific training modules under existing programs like **Skill India 2.0** will create a workforce equipped with the skills needed for green jobs.
 - Capacity-building programs must also **target industry leaders to educate them about the economic and social benefits** of ESG adoption.
- **Modernize Energy Infrastructure for Renewable Transition:** India must invest in upgrading its energy infrastructure to ensure the **integration of renewable energy at scale.**
 - This includes modernizing **transmission grids, expanding energy storage solutions like batteries,** and creating micro-grid systems for rural areas.
 - Initiatives like the **National Green Hydrogen Mission** must be scaled with supporting infrastructure to accelerate the shift to cleaner fuels.
 - Tata Steel aims to achieve **100% material efficiency across all steelmaking sites by FY30, and can serve as a model.**
- **Ensure Mandatory ESG Reporting and Third-Party Audits:** India should **make ESG disclosures mandatory for all listed companies and large industries,** accompanied by third-party audits to ensure credibility and prevent greenwashing.
 - Standardizing reporting through tools like the **Business Responsibility and Sustainability Reporting (BRSR)** can be made more accessible for SMEs.
 - Introducing a **national ESG Ratings System** will encourage businesses to improve their performance.
- **Incentivize Adoption of Renewable Energy and Cleaner Technologies:** The government should provide targeted incentives like **tax breaks, subsidies, and technology-sharing initiatives** to accelerate the adoption of renewable energy and cleaner industrial technologies.
 - Policies promoting **green hydrogen, energy-efficient machinery, and EV infrastructure** should be strengthened.

- Expanding schemes like the **Faster Adoption and Manufacturing of Hybrid and Electric Vehicles (FAME)** will further bolster sustainable transitions.
- **Promote Social Equity Through Labor Welfare Programs:** India must prioritize the social dimension of ESG by strengthening **labor laws, addressing workplace safety, and promoting inclusivity**.
 - Programs to **close wage gaps (through effective implementation of Labour Codes), provide health benefits, and ensure diversity** (especially for women and marginalized groups) are critical.
 - **Linking corporate incentives to social impact metrics**, such as gender diversity and fair wages, can create a more equitable workforce.
- **Leverage Technology for ESG Monitoring and Implementation:** India can adopt advanced technologies like **AI, IoT, and blockchain to monitor ESG compliance** in real time, track carbon emissions, and measure sustainability performance.
 - Creating a **centralized ESG Data Repository** will help industries, investors, and regulators access reliable data for decision-making.
 - **Technology-driven monitoring tools** can also ensure effective enforcement of ESG standards.
- **Integrate ESG into Government Procurement Policies:** The government should **adopt ESG criteria in procurement processes**, ensuring that contracts are awarded to businesses with strong ESG compliance.
 - Linking government funding to ESG performance will drive industries toward sustainability.
 - For instance, introducing **Green Procurement Guidelines can make ESG compliance mandatory** for public infrastructure projects.
- **Focus on Urban Sustainability Through Smart Cities:** India must integrate ESG principles into **urban development projects** under programs like the **Smart Cities Mission**.
 - Emphasis should be placed on **green buildings, sustainable urban transport, and water-efficient systems**.
 - Developing **carbon-neutral urban zones** can be a model for future cities, aligning with India's net-zero targets.

Conclusion

India must adopt a forward-looking approach to strengthen its ESG regulatory framework, **ensuring clarity and consistency in policies to attract sustainable investments**. This involves **streamlining regulations, reducing adoption costs, and investing in necessary infrastructure**. Emphasizing innovation and partnerships with global leaders will enable India to build a competitive edge in the ESG space. By proactively addressing these challenges, India **can position itself as a key player in the global sustainable investment landscape**.

Drishti Mains Question:

"While the Environmental, Social, and Governance (ESG) framework is critical for India's sustainable growth, its effective implementation faces several challenges." Discuss the significance of ESG for India and suggest measures to overcome the existing hurdles.

UPSC Civil Services Examination, Previous Year Question (PYQ)

Prelims:

Q. Which of the following is issued by registered foreign portfolio investors to overseas investors who want to be part of the Indian stock market without registering themselves directly? (2019)

- (a) Certificate of Deposit

(b) Commercial Paper

(c) Promissory Note

(d) Participatory Note

Ans: (d)

Mains:

Q. Economic growth in the recent past has been led by an increase in labor activity." Explain this statement. Suggest the growth pattern that will lead to creation of more jobs without compromising labor productivity. (2022)

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