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Green Insights: ESG Matters

Monthly Newsletter- June 2024 Vol. 01, Issue 2

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- Mumbai's Clocks 30 Percent Consumption from Renewables
- India Exports Solar Module Worth $1.97 Billion in Fiscal 2023-24
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Editor's Note

Dear Readers,

Welcome to our *Second Edition* of our newsletter **'Green Insights: ESG Matters'**. As the global focus on sustainability intensifies, businesses are increasingly recognising the importance of integrating ESG considerations into their operations. From reducing carbon footprints to enhancing social impact, companies are embracing a more holistic approach to value creation that goes beyond financial performance.

In this edition, we explore the latest trends, developments, and best practices in the realm of sustainability and responsible corporate conduct. We also take a closer look at key sustainability trends shaping the business world, from the rise of renewable energy to the growing emphasis on diversity and inclusion.

We hope you find this edition of our newsletter informative and inspiring as we journey together towards a more sustainable and responsible future.

Warm regards,

[T S Vishwanath]

Navigating Sustainability: A Look at ESG Standards in India and the EU

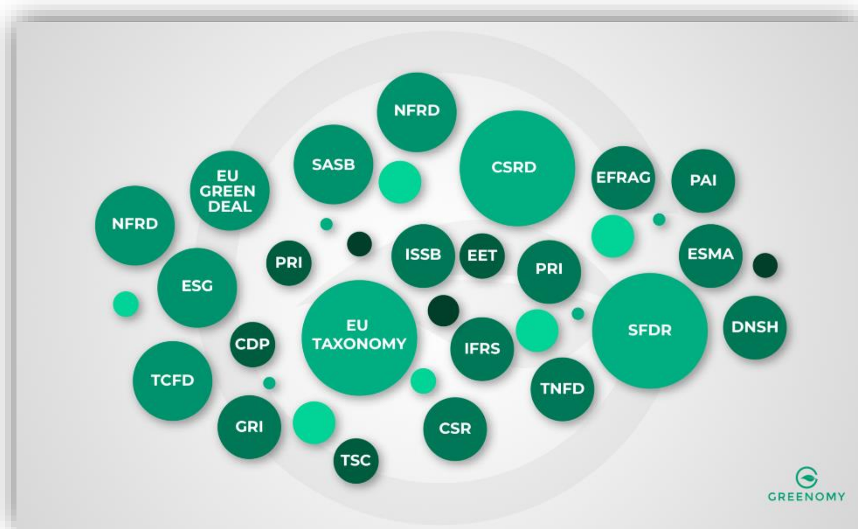
Climate change and environmental concerns are complex global issues. Businesses and companies are now increasingly expected to adopt environmentally friendly measures. In this direction, ESG (Environmental, Social, and Governance) has emerged as an important tool that seeks to make businesses environmentally and socially sustainable. Integration of factors such as better structure, investor interests, and government regulatory interests are giving better traction to ESG.

Today, ESG factors are increasingly influencing global business practices. Countries are progressing at their own pace in applying them. Developed nations are believed to be in an advanced stage of ESG implementation, while developing countries, including India, are at an emerging stage. Several factors, including investor pressure, government regulations, and economic development, play a role in the rate at which a company shifts to ESG compliance.

A comparative analysis of strategies adopted by India and the European Union (EU), reveals significant variations in their approaches. While both India and the EU recognize the importance of ESG, their approaches differ in terms of mandatory regulations and overall structure. Major variations are as follows.

The EU's Approach to ESG

The EU has taken a stricter stance on ESG compliance. The EU's Corporate Sustainability Reporting Directive (CSRD), that entered into force on 5 January 2023, Requires a broader set of large companies, as well as listed SMEs, to report on sustainability.



Furthermore, some non-EU companies will also have to report if they generate over EUR 150 million on the EU market. The new rules seek to ensure that investors and other stakeholders have access to the

information they need to assess the impact of companies on people and the environment and for investors to assess financial risks and opportunities arising from climate change and other sustainability issues.

Additionally, the upcoming Corporate Sustainability Due Diligence Directive (CSDDD) proposals seeks to establish a framework of due diligence for companies to identify actual or potential risks and harm to human rights and the environment as well as establishing processes and standards to diminish these risks. The Directive will apply to a company's chain of activities, and operations across the company's subsidiaries both insides and outside of Europe. The purpose of the Directive is to improve the regulatory framework on human rights and sustainability due diligence, which will aid in the EU's transition to a climate-neutral and green economy.

India's Evolving ESG Landscape

For India, increasing integration of ESG in business practices needs to accelerate considering our pledge to reduce emissions by 50 percent by 2050. India is taking necessary measures to achieve this goal, though at the moment India's approach is voluntary in nature. The Business Responsibility and Sustainability Reporting (BRSR) requirements set by SEBI (Securities and Exchange Board of India) mandate companies above a certain size to report on their sustainability practices. The recently

introduced Master Circular by Credit Rating Agencies (CRAs) under SEBI is an attempt to bring about a standardized framework. This new regulation will soon be enforced.

The SEBI's Master Circular for ESG Rating Providers (ERPs) seeks to regulate ERPs under the Securities and Exchange Board of India (Credit Rating Agencies) Regulations, 1999.

The ERPs provide six rating products – ESG rating, Transition or Parivartan score, combined score, core ESG rating, Core Transition or Parivartan score, and core combined score – which are rated based on the BRSR standards. The framework also takes into account sector-wise differences while calculating the scores with rating of 0-100, where 100 represents the maximum score.

Under the SEBI's Master Circular, ERPs are required to follow specific criteria and methodologies for assessing the risk of non-availability of information from issuers, steps to be taken in case of non-cooperation by issuers, and disclosure of minimum/indicative information requirements. Non-cooperation by an issuer may result in the ESG rating symbol being accompanied by a specific suffix indicating the lack of cooperation.

Penalties for non-compliance with the regulations can include violations of the Securities and Exchange Board of India Act, 1992, and the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003. Regulatory actions, fines, or other enforcement measures may be imposed by SEBI for violations.

It is essential for ESG Rating Providers to adhere to the guidelines, maintain high standards of conduct, and have systems in place to track material events related to environmental, social, and governance factors.

Despite the differences between the approaches followed by the EU and India, there's a bit of convergence as well. Indian companies with operations in the EU will need to comply with EU regulations. Additionally, Indian investors are increasingly ESG-conscious, creating a market incentive for stronger ESG practices.

News from India

India's Solar Capacity Reaches 48 GW

Considering that solar PV power installations are generally set up for a period of 25 years and solar PV cells and modules used in plants require long term warranty, the Ministry of New and Renewable Energy (MNRE) has issued "Approved Models and Manufacturers of Solar Photovoltaic Modules (Requirement for Compulsory

Registration) Order, 2019" on 02.01.2019. Under this, MNRE has an Approved List of Models and Manufacturers (ALMM), which is periodically reviewed.

In the recent period, MNRE has increased the list of ALMM by adding 3,508 MW of new solar module capacity. *This new addition brings the total ALMM to approximately 48 GW*. Notable contributions to the newly added capacity include Rayzon Solar with 692 MW and RenewSys India with 576 MW. Other significant additions are Pixon Green Energy (545 MW), Kosol Energie (494 MW) and Luminous Power Technologies (300 MW). New entrants to the ALMM are Oswal Solar Structure, HQ Lamps Manufacturing Company, ADM Solar Power & Infrastructure, and Luminous Power Technologies.

Companies like Waaree Energies, Adani Solar, ReNew FS India Solar Ventures, Tata Power Solar, Goldi Solar, Premier Energies, Vikram Solar, Rayzon Solar, Emmvee Photovoltaic Power, Grew Energy, and RenewSys India each have a capacity exceeding 1 GW, contributing 37,682 MW or 78.5 percent of the total cumulative capacity under ALMM.

Another development in the area is that the MNRE has also introduced changes to the ALMM, including the addition of cadmium telluride thin film-based models alongside crystalline-silicon models, with mandatory adherence to Bureau of Indian Standards (BIS) norms and minimum efficiency standards. For grid-scale projects, a minimum efficiency of 19 percent is required, while rooftop and solar pumping systems must achieve 18.5 percent, and solar lighting applications 18 percent. These benchmarks ensure high performance for modules used in government projects across various sectors.

Mumbai's Clocks 30 Percent Consumption from Renewables

India's financial capital Mumbai has become the first mega city with over 30 percent of its power consumption coming from renewables. A key cog in achieving this milestone has been laid by Adani Green Energy and Adani Energy Solutions, which have worked closely to achieve this. Moreover, Adani Electricity, which is the leading power distribution company in Mumbai, has

targeted to double this, i.e., procure 60 percent of energy requirement from renewable energy by 2027.

In the financial year 2023-24, Adani Green Energy Ltd. has added an additional greenfield capacity of 2.8 gigawatt, denoting an addition of 15 percent of India's total renewable energy capacity while it avoided a 15.64 million ton of carbon dioxide emission. As per available information, Adani Green has also achieved its 12.21 percent target against 65 percent of electric vehicle commitment by fiscal 2030.

Adani Green in financial year 2024 also provided 3477 direct/indirect job opportunities along with engaging 91 percent of its manufacturing suppliers under CDP supply chain management program. In the fiscal 2024, Adani Energy Solutions Ltd., the transmission arm of Adani group, has increased its renewable energy share in bulk power purchase to 34.51 percent from 3 percent in FY21. It is mentioned that approximately 3.362-megawatt solar capacity is available at Mahendragarh, Akola, Koradi, Sami, Morena, Rajnandgaon substations and further continuing to meet its power requirements. Furthermore, the company reduced 78 percent of hazardous waste in 2023-24.

India Exports Solar Module Worth $1.97 Billion in Fiscal 2023-24

As a sign of India's improving position as a major producer and exporter of solar modules, as per the data published by India's Ministry of Commerce and Industry, India's solar module exports increased by 91 percent up to $1,969.13 million in fiscal 2023-24. Out of these total exports, USA was the biggest destination with modules shipments to the nation totalling $1,939.92 million (98.5 percent of India's total module exports). Exports to South Africa totalled $4.73 million.

Data also reveals that India's solar module imports increased by 361 percent to hit $4,353.51 million in fiscal 2023-24, from $943.52 million in fiscal 2022-23. China was a

major source of import of solar modules with China's shipments to India totalling $2,850.74 million, around 66 percent of India's total module imports. Vietnam was the second largest module supplier to India. Its module shipments to India totalled $935.05 million. Malaysia's shipments to India stood at $237.99 million.

India's imports of solar cells not assembled in modules or made up into panels were also significantly up. These reached $1,853.05 million in fiscal 2023-24, registering 41 percent increase in value terms compared to $1,310.28 million in fiscal 2022-23. China remained the largest solar cell supplier to the Indian market. PV cell imports from China almost doubled to $1,035.98 million in fiscal 2023-24, from $581.45 million in fiscal 2022-23. Malaysia and Thailand were India's next two biggest sources for solar cells with their shipments to India totalling $311.81 million and $248.75 million, respectively.

India experienced intense heatwave in May 2024

India is now getting increasingly concerned with heatwaves. In May 2024, the north, west and central India experienced 8-16 days of heatwaves as intense heat blazed through nearly 80 per cent of the country's land mass.

Large number of heatwave days were also witnessed in Gujarat and Haryana (both 12) followed by Punjab, Delhi, Uttar Pradesh and west Madhya Pradesh, each registering 10 heat wave days when the maximum temperature was 45 degrees Celsius or more. Odisha and east Madhya Pradesh come next with 8 heatwave days followed by Vidarbha, Rayalaseema and Tamil Nadu with seven such days. North and south interior Karnataka had six heatwave days.

The IMD had already in March 2024 forewarned about the heatwave when it cautioned people that the duration of the heatwave days in March-April-May would be six to 15 days longer than average. The met agency also stated that only western Himalayas, north-east India and parts of peninsular India would be spared.

The areas that escaped the heatwave in May are the north east, western coast and the Marathwada subdivision of Maharashtra.

News from the World

Unified Sustainability Disclosure in China by 2030

China's Ministry of Finance has begun soliciting opinions on a draft guideline aimed at unifying corporate sustainability disclosures, with a vision of establishing a nationwide standard by 2030. The move comes amid a growing global focus on Environmental, Social, and Governance (ESG) issues, which has made enhanced corporate sustainability disclosures an imperative.

The draft guideline was posted on the official website of the ministry on May 27, 2024, and the deadline for soliciting opinion is June 24, 2024. The draft guideline consists of six chapters and 33 articles, covering general provisions, disclosure objectives and principles, information quality requirements, disclosure elements, other disclosure requirements, and supplementary provisions.

Currently, disclosures by Chinese companies are largely voluntary and lack uniform standards. Unified rules will help companies better engage in global trade and investment activities, enhance their international competitiveness, and support China's institutional opening-up, the ministry said.

The draft guideline, named "Corporate Sustainability Disclosure Standards – Basic Standards," sets general requirements for corporate sustainability information disclosures and applies to companies established in China that are required to disclose such information.

Taking into account the development stage and disclosure capabilities of Chinese companies, the implementation of the basic standards will not adopt a one-size-fits-

all mandatory approach. Instead, it aims to gradually extend from listed companies to non-listed companies and from voluntary to mandatory disclosures.

By 2027, China expects to introduce basic corporate sustainability disclosure standards and climate-related disclosure standards.

ESG investment scale reached 33.06 trillion yuan

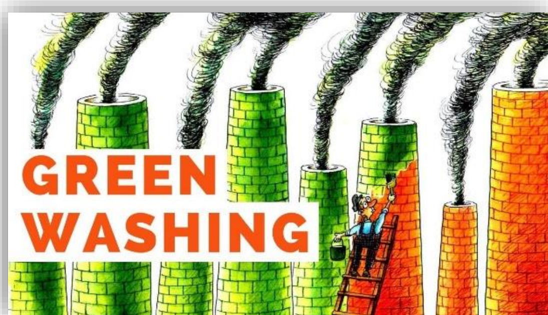
It may be noted that since April 2024, China has rolled out a series of significant measures in the ESG, carbon peak and carbon neutrality, and ecological fields. In this regard, the Shanghai, Shenzhen, and Beijing stock exchanges have officially released guidelines for listed companies' sustainable development reports, marking the first comprehensive standard for corporate sustainability information disclosures in China. Additionally, the central bank and seven other departments have jointly issued a guidance that for the first time explicitly includes ESG in credit assessments.

As of the end of April this year, 1,938 A-share listed companies have published ESG-themed reports, according to a report by China Galaxies Securities. The banking, non-bank finance, steel, mining, and public utilities industries have the highest disclosure rates for ESG reports. In terms of corporate attributes, the disclosure rate of listed centrally-administered state-owned enterprises is the highest, reaching 80 percent.

According to data from SynTao Green Finance, by the end of the third quarter of 2023, China's ESG investment scale reached 33.06 trillion yuan (about 4.56 trillion U.S. dollars), a record high, with a 34.4 percent increase from 2022.

How the EU and UK regulatory approaches to sustainability vary?

EU and UK regulatory regimes diverge on sustainable investment products, with differences in disclosure frameworks, labelling, anti-greenwashing rules, sustainability objectives, asset thresholds, and taxonomy alignment. Compared to the UK regime, the EU financial sector does not have a dedicated anti-greenwashing rule.



Supervisory authorities in the European Union and the United Kingdom have introduced regulations to address growing concerns that sustainable investment products may not be as green as they claim. The EU's framework, set out in the Sustainable Finance Disclosure Regulation (SFDR), has been around much

longer than the UK's Sustainable Disclosure Regime (SDR), which includes a new anti-greenwashing. At their core, the two regimes differ. The EU's SFDR is a disclosure framework, whereas the British SDR is a labelling regime.

Regulations to greenwashing in EU and the UK

The UK's new anti-greenwashing rule, coming into effect on 31 May, 2024 requires all sustainability-related claims to be "fair, clear and not misleading." The accompanying guidance consultation from the UK's Financial Conduct Authority (FCA) outlined what firms must do to comply with the anti-greenwashing rule, such as ensuring that sustainability references are correct and can be substantiated. This is expected to be a challenge for firms as it requires them to build an evidence base to support assertions made in all manner of communications, including stakeholder presentations.

Another requirement of the UK's new anti-greenwashing rule is that communications must be complete and should not omit important information. Given the rules' applicability to all firms, each will need to be prepared to address completeness across a broad range of interactions by calibrating communications to client-specific needs.

From the EU perspective, anti-greenwashing has been an integral part of financial services policies. Outside the financial sector, two of the most recent and visible initiatives have been the proposed Green Claims Directive and the proposed Greenwashing Directive.

Variations on the objective of sustainability in EU and the UK

Another significant variation is the sustainability objective. Under the UK's SDR, all products using a label must have a sustainability objective, which is an explicit statement of intention to invest "with the aim of directly or indirectly improving or pursuing positive environmental and/or social outcomes." Furthermore, such objectives must be clear, specific, and measurable.

On the other hand, the EU's SFDR identifies three financial product categories, each with a different transparency obligation, but these do not have a sustainability scope. Market participants are required to objectively assess their financial product's ESG and sustainability characteristics to apply the correct transparency obligations for their category.

How sustainable asset thresholds and taxonomy alignment differ in EU and the UK?

A further important difference concerns sustainable asset threshold. In the UK, the SDR provides that for each label, at least 70% of assets must be invested according to a robust, evidence-based standard that is an absolute measure of environmental and/or social sustainability.

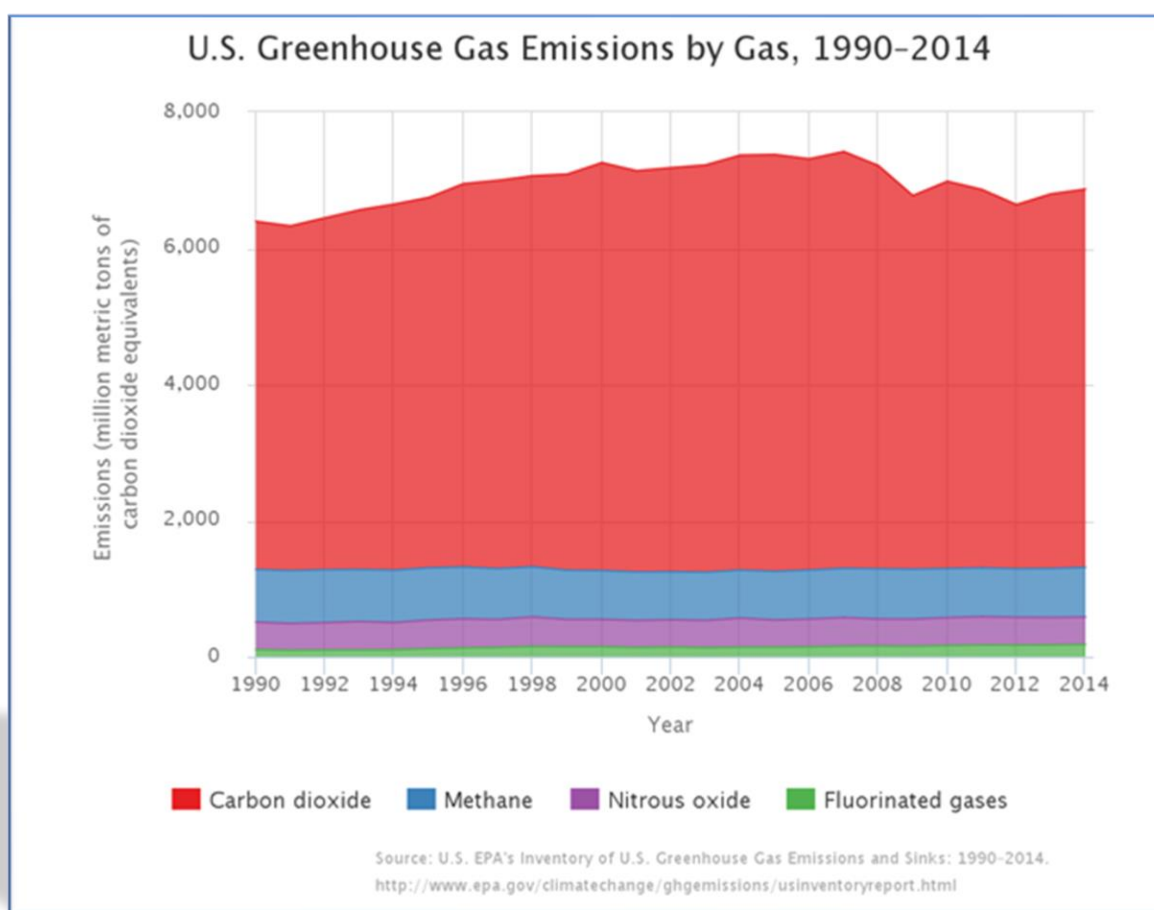
The EU's SFDR establishes a sustainability threshold for so-called dark green funds, but there is no specific link to an evidence-based standard. Instead, these funds need to justify the proportion of their investments that is not aligned with their sustainability characteristics.

There are also variations in terms of taxonomy alignment. The UK aspires to develop its own green taxonomy. The EU has its own green taxonomy to help companies and investors identify environmentally sustainable economic activities, but it does not have a social sustainability taxonomy.

U.S. Securities and Exchange Commission comes out with new GHG disclosure requirements

Over the past six months environmental, social, and governance (ESG) policy has shifted into a new era with the promulgation of new Greenhouse Gas (GHG) disclosure requirements at both the federal and state level in California. However, the majority of these requirements are now mired in litigation, but their arrival marks a significant shift in corporate accountability mandates.

In March 2024, the U.S. Securities and Exchange Commission (SEC) finalised the agency's first climate disclosure regulations. The rules, however, have been put on hold under an administrative stay in the face of pending litigation, apply to most public companies and companies that are going public. Among other mandates, the new rules will require companies to report "climate-related risks that have materially impacted, or are reasonably likely to have a material impact on, [their] business strategy, results of operations, or financial condition."



However, in a significant step back from the draft rules released on March 21, 2022, the SEC will only require disclosure of material GHG emissions [Scope 1 and Scope 2] from certain categories of filers, and will not require the disclosure of emissions indirectly produced along a company's upstream or downstream value chain [Scope 3 emissions].

The SEC final rules now face multiple lawsuits from a variety of opponents. On one end, at least 10 states and various companies and industry representatives, including the U.S. Chamber of Commerce, have sued the SEC, calling the regulations an unconstitutional overreach of agency authority. At the other end of the spectrum, environmental advocacy groups have sued the SEC for weakening the reporting

requirements included in the draft version. The consolidated suits will be heard in the U.S. Court of Appeals.

California to make disclosure requirements more stringent

While the SEC backed down from the more stringent regulations initially proposed in 2022, California pressed ahead to pass the most ambitious disclosure requirements in the United States. These legislations are expected to collectively impact over 10,000 companies, including public and private entities and subsidiaries of non-U.S.-based companies. Details of legislations and disclosure requirements thereunder are:

- Senate Bill 253 requires covered entities with more than $1 billion in annual revenue that do business in California to report direct (Scope 1 and 2) and indirect (Scope 3) emissions;
- Senate Bill 261 mandates that businesses operating in California with over $500 million in annual revenue report certain climate-related financial risks beginning on January 1, 2026; and
- Assembly Bill 1305 requires certain disclosures for companies that market, sell, and purchase voluntary carbon offsets.

Issues in implementation of these legislations remain, as these legislations now face both legal and possible budgetary obstacles. In January 2024, a coalition of business and agricultural groups, including the U.S. Chamber of Commerce, sued the state, seeking to block the implementation of SB 253 and 261.

In another possible hurdle to implementation, the newly proposed budget, released in January 10, 2024, paused the funding required to implement all new laws, including the new disclosure requirements, to address the state's deficit. Supporters, including the bills' sponsors, are urging to fully fund the measures when the budget is finalised in coming months.

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National CSR Network (NCN), an initiative of Strategic CSR Alliance - a Section 8 Company, was established in 2015 with a vision to empower organisations and individuals for meaningful social development. NCN follows the A (Alliance) A (Advisory/ Capacity Building) A (Assessment) approach, striving to identify and address the pain points of stakeholders while providing an interactive platform in CSR, ESG & Sustainability.

NCN is dedicated to spearheading training and development initiatives in the area of CSR, ESG, and Sustainability, by leveraging its expertise to deliver impactful workshops, webinars, and training sessions. Its tailored approach focuses on bridging the knowledge gap through industry-led programs, ensuring that organisations and their NGO partners are equipped with the necessary skills and knowledge to create positive and lasting impact on society and the environment.

For more information about in-house programs and upcoming workshops, kindly connect with Shivika at 9717314507 or email at shivika@nationalcsrnetwork.in info@nationalcsrnetwork.in

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