ESG Oversight in India

Source: TH

Why in News?

A **Parliamentary Standing Committee on Finance** has recommended that the Ministry of Corporate Affairs (MCA) establish a dedicated **ESG (Environmental, Social, and Governance)** **oversight body.** The push comes amid rising concerns over **greenwashing**.

What is ESG (Environmental, Social, and Governance)?

- **About:** ESG refers to standards for assessing an organisation's environmental and social impact.
- **Importance of ESG for India:**
    - **Climate**: India is prone to **floods, heatwaves, and sea-level rise** (according to the Centre for Science and Environment (CSE), in 2024, **India experienced extreme weather events on 322 out of 366 days)**.
        - Companies with strong environmental practices, using clean energy and cutting emissions can reduce these risks.
    - **Social**: India faces social challenges such as **poverty, inequality,** and lack of basic needs.
        - Companies that prioritize social responsibility can drive positive societal change, creating a more inclusive economy.
    - **Governance**: Strong **corporate governance** built on transparency and ethical conduct helps rebuild trust, draw investments, and support stable, sustainable economic growth.
- **Parliamentary Standing Committee Recommendations:** The committee has recommended creating an **ESG oversight body within the MCA to ensure companies make genuine sustainability claims.**
    - This body should have forensic experts to detect fraud, set sector-specific ESG guidelines, and help **Micro, Small, and Medium Enterprises (MSMEs)** adopt ESG practices.
    - It proposes amending the **Companies Act, 2013 to make ESG a core duty of directors,** embedding sustainability into business strategy with stronger rules for accurate and meaningful ESG actions.
        - It also calls for stricter, faster penalties for false ESG claims to deter greenwashing.
    - Additionally, the panel has urged to develop strategies for addressing financial crimes early on and strengthen the **Serious Fraud Investigation Office (SFIO)** and the **National Financial Reporting Authority (NFRA),**
        - It also emphasized improving the transparency and effectiveness of the **Corporate**

Social Responsibility (CSR) oversight system.
- **India's Initiative Related to ESG:** The **Securities and Exchange Board of India (SEBI)** has mandated the top 1,000 listed companies to disclose their ESG performance through the **Business Responsibility and Sustainability Reporting (BRSR) Framework.**
  - This framework aligns with global standards like the **Global Reporting Initiative (GRI)** and the **Sustainability Accounting Standards Board (SASB).**

What is Greenwashing?

- **About:** Greenwashing refers to the deceptive practice where **companies make false or exaggerated environmental claims** about their products to create a misleading impression of being environmentally friendly.
  - This tactic is used to **attract consumers** who prefer sustainable and eco-friendly products.
  - It involves false advertising, vague labels, or confusing messaging regarding product recyclability, eco-friendly materials, and sustainability practices.
- **Factors Contribute to the Prevalence of Greenwashing:**
  - **Rising Eco-Consumerism:** Growing awareness about climate change and pollution, especially among younger Indians, has led to a surge in demand for sustainable products.
    - To exploit this trend, some brands use vague terms like **eco-friendly or natural without certification** or real sustainable practices.
  - **Weak Regulatory Enforcement: Bureau of Indian Standards (BIS)** Eco-Mark certification helps consumers identify eco-friendly products, though its **adoption is not mandatory,** and many products still lack this certification.
    - **Plastic Waste Management Rules** aim to reduce plastic waste but don't fully tackle greenwashing related to **plastic reduction claims.**
    - ESG-related requirements are spread across multiple laws and guidelines without a unified compliance framework.
      - Absence of strict penalties for false ESG claims reduces deterrence against greenwashing.
  - **Cultural Exploitation:** Some companies in India exploit traditional systems like **Ayurveda or organic farming** to market their products as eco-friendly.
    - They use labels like **"natural" or "Ayurvedic"** to appeal to consumers, even when their **sourcing or production methods are unsustainable** and environmentally harmful.
  - **CSR and Marketing:** Companies often highlight token CSR activities like tree planting, while continuing environmentally harmful operations, especially in **sectors like fossil fuels or heavy manufacturing.**
- **India's Initiatives Related to Greenwashing:**
  - **Consumer Protection Act, 2019: Central Consumer Protection Authority (CCPA)** regulates misleading environmental claims.
  - **Green Rating Project:** Under the **Centre for Science and Environment (CSE)**, it rates industries on environmental performance.
  - **Advertising Standards Council of India Guidelines:** Advertisements with green claims must be specific, accurate, and not misleading.

Drishti Mains Question:

Q. Greenwashing is as much an ethical issue as it is a regulatory one.' In this context, discuss the role of Environmental, Social, and Governance in promoting corporate sustainability.

UPSC Civil Services Examination, Previous Year Question (PYQ)

Prelims

Q. Which one of the following best describes the term "greenwashing"?

a) Conveying a false impression that a company's products are eco-friendly and environmentally sound

b) Non-inclusion of ecological/environmental costs in the Annual Financial Statements of a country

c) Ignoring the disastrous ecological consequences while undertaking infrastructure development

d) Making mandatory provisions for environmental costs in a government project/programme

Ans: (a)

PDF Refernece URL: https://www.drishtiias.com/printpdf/esg-oversight-in-india