Krÿstähl

ENVIRONMENT SOCIAL GOVERNANCE

The Power Guide

ENVIRONMENT-SOCIAL-GOVERNANCE (ESG) IMPACT ASSESSMENT AND REPORTING

The Power Guide

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TABLE OF CONTENTS

ENVIRONMENT-SOCIAL-GOVERNANCE (ESG) IMPACT ASSESSMENT AND REPORTING 2
Disclaimer 3
Published By 3
Copyright 3
Knowledge Partners 3
CHAPTER-I 7
1. WHAT IS ESG? 7
1.1. ENVIRONMENT 8
1.2. SOCIAL 9
1.3. GOVERNANCE 10
CHAPTER-II 11
2. WHY ESG IS GAINING GLOBAL ATTENTION 11
3. ENVIRONMENT SOCIAL GOVERNANCE (ESG) SIMPLIFIED 13
CHAPTER- IV 14
4. THE PROCESS OF ESG REPORTING 14
4.1. WHY SHOULD ESG INFORMATION BE REPORTED 14
4.2. FOR WHOM SHOULD ESG INFORMATION BE REPORTED 15
4.3. CHANNELS FOR ESG REPORTING 16
4.4. WHAT ESG REPORTING DOES FOR AN ORGANIZATION 16
5.1. CONGLOMERATES 19
5.2. INDUSTRY 21
5.3. INVESTORS 22
5.4. BANKS 24
5.5. GREEN PROJECTS 24
5.6. CSR & SUSTAINABILITY DEPARTMENTS 25
CHAPTER-VI 27
6. CHALLENGES TO OVERCOME WITH ESG MONITORING AND REPORTING 27
6.1. FINDING THE RIGHT FRAMEWORK 27
6.2. MEASURING AND TRACKING PERFORMANCE 27
6.3. TRACKING STAKEHOLDER SENTIMENT AND ORGANIZATIONAL REPUTATION 28
6.4. VISUALIZATION AND RISK MITIGATION 28
6.5. ENVIRONMENTAL 29
6.6. SOCIAL 29
6.7. GOVERNANCE 30

CHAPTER: VII 31
7. INNOVATION @ESG 31
CHAPTER-VIII 33
8. ESG FRAMEWORKS - AROUND THE GLOBE 33
CHAPTER-IX 37
9. ESG MONITORING AND REPORTING: MAKE A DIFFERENCE 37
9.1. DIGITAL ESG MONITORING AND MANAGEMENT SYSTEM 37
9.2. ACCOUNTING STANDARDS IN ESG 38
10. CASE STUDY 40
10.1. SOUTH AFRICAN RETAIL HOLDING COMPANY: FALLOUT OF CORPORATE GOVERNANCE 40
10.2. INTERNATIONAL MINING COMPANY: ESG RISK MANAGEMENT 41
10.3. NET ZERO ALIGNMENT AND QUALITY OF ESG RISK MANAGEMENT 42
10.4. NORTH AMERICAN JEWELLERY RETAILER 43
10.5. GLOBAL MANUFACTURER OF ARTIFICIAL TURF 43
10.6. US-BASED NATURAL GAS FIRED GENERATING STATION 44
REFERENCES 46
ABBREVIATIONS 48
ABOUT SANSHODHAN 50

PURPOSE OF ESG- A POWER GUIDE

Decisions about the type of Environment, Social and Governance (ESG) information to report as well as why and how companies should prepare the information, where they should report it and for whom, are based on the evaluations and judgements management makes when assessing the different options available to them.

As ESG reporting requirements evolve, become more complex and add new features, such as the demand for forward-looking, investor-grade information, companies will increasingly need techniques to respond to new reporting challenges. The ESG Guide provides a structured look at what ESG is, how to report it, why it's necessary and the impact ESG Reporting has had in the world.

Readers of this guide may use it to:

- Explore the various options associated with external ESG disclosure
- Identify the most appropriate reporting provisions and indicators
- Take control of the company's narrative within corporate reports to limit or balance opinions and conclusions reached by investors and others based on a variety of information sources
- Support collaboration, knowledge sharing and cross functional, interdisciplinary team discussions and/or regular meetings with professionals from finance, risk management, control and planning, investor relations, legal, sustainability and communications departments
- Gain an understanding of how ESG works.

CHAPTER-I

1. WHAT IS ESG?

ESG stands for Environmental, Social, and Governance. These three core pillars measure the sustainability, societal impact and the investment potential within a business, company or organisation. The purpose of ESG criteria is to help more concretely determine the financial performance of a company based on return and risk. Environmental, Social and Governance factors are all closely tied to responsible investment.

SOURCE: INAA Group

The three criteria; environmental, social and governance are the building blocks of ESG research which allow the performance of companies to be analyzed, scored and recommendations be made. The components of ESG are essentially very broad categories which can be further elaborated on. Let's take a closer look at what each of the core pillars consist of.

In India, the **Business Responsibility and Sustainability Reporting ("BRSR"), o**riginating from the **Ministry of Corporate Affairs (MCA) r**eport on Business Responsibility Reporting, has found its way into the regulatory provisions by way of an amendment to the Regulation 34(2)(f) of the Listing Regulations], notified on 5th May, 2021. Further, SEBI vide circular dated 10th May, 2021 introduced the format of BRSR and the guidance note to enable the companies to interpret the scope of disclosures.

The BRSR replaced the existing BRR format w.e.f. FY 2022-23. In FY 2021-22, the top 1000 listed entities may voluntarily submit the BRSR and from FY 2022-23 onwards, the same has to be submitted mandatorily. **BRSR Lite is for unlisted companies** keen to detail out their good practices, streamline, disclose or enhance their ESG Impact or exploring the social impact investment. The BRSR format is aligned with data backed ESG reporting/ disclosure, to prevent green-washing and to enhance transparency.

1.1. ENVIRONMENT

This pillar of ESG consists of where the company is located, how it uses everything from the planet and the damage the company is causing to the planet. These are pertinent indicating factors for investors while they look into making socially responsible investments.

Natural Resources – Proper usage of raw materials and its sourcing (fair trade supplier & organic ingredients), land use and water management.

Pollution – The effects of toxic emissions, responsible packaging and appropriate waste management techniques. Deforestation is also a concern where applicable.

Climate Change – Carbon emissions, vulnerability to climate change regulations and the overall carbon footprint of the organization.

Business Responsibility and Sustainability Reporting (BRSR) is a format mandated by SEBI, GoI, where from FY 2022-23, top listed companies are mandated to submit BRSR report. BRSR having various parameters aligned with ESG reporting. The key parameters for environmental reporting are:

- Solid Waste Management
- 3R Practices
- Extended Producer Responsibility
- Energy and GHG Emissions
- Waste Consumption and Withdrawal
- Sustainable Sourcing
- Life Cycle Assessment (LCA)

1.2. SOCIAL

This pillar of ESG consists the vast number of potential issues that a company can face and how the company deals with these issues. This is a key indicating factor for investors while they look into making socially responsible investments. The investors want to ensure that a company does what is right for all the people involved.

Human Resources – How the management treats its employees, safety standards, occupational health and the labour standards of suppliers.

Stakeholders – Relationship with customers and suppliers.

Products – Quality of the products, environmentally friendly products, data privacy and safety and security of financial products where applicable.

BRSR, SEBI, GoI reporting format consist of various parameters aligned with ESG reporting. The key parameters for reporting on social aspects are:

- Employee Wellbeing
- Health and Safety of Workers
- Trainings
- Human Rights
- *Social Impact Assessment*
- Gender Equality & representation of Women at Top
- CSR Activities

1.3. GOVERNANCE

Governance refers to corporate governance. It is essentially how those working on the top floors of the company manage everything. Socially responsible investors look for people who care and do what is right for their employees and various stakeholders.

Corporate Behaviour – Business ethics, processes for preventing corruption, transparency in tax matters along with anti-competitive practices.

Finances – Financial and accounting transparency and full and honest financial reporting. The accounting standards and practices of the company are scrutinized.

Executive Compensation – Is extra compensation for executives appropriately tied to increasing the long-term value, viability, and profitability of the business?

Protection of Interests (Minority Stakeholders) – It's not just about the large stakeholders. Companies need to be there for all stakeholders.

SOURCE: Corporate Finance Institute, 2021

BRSR, SEBI's ESG reporting format mandates following parameters for reporting on governance aspects:

- Anti-corruption and Anti-bribery Policies
- Retention Policies
- Stakeholder Engagement
- Conflict Management Process
- Renumeration Policies

CHAPTER-II

2. WHY ESG IS GAINING GLOBAL ATTENTION

The term ESG was first coined in 2005 in a landmark study entitled "Who Cares Wins." Today, ESG investing is estimated at over $20 trillion in Assets Under Management (AUM) or around a quarter of all professionally managed assets around the world, and its rapid growth builds on the Socially Responsible Investment (SRI) movement that has been around much longer.

SOURCE: The Remarkable Rise Of ESG, George Kell, Forbes

As the world evolves and grows, ESG has become more important than ever. There are numerous reasons for this development.

10 REASONS WHY ESG HAS BECOME MORE IMPORTANT THAN IT EVER WAS BEFORE

1. *Good Governance is systematically important*

The issues of culture and conduct have systematic importance for the public and private sectors alike. Improving corporate governance is increasingly a goal for regulators.

2. *Public-Private Partnerships are expanding*

Public-private collaboration has grown from addressing infrastructure and housing needs to tackling broader social and environmental issues.

3. *Climate change is real*

Climate change is now universally understood and (almost) universally acknowledged. Mitigation techniques are being used worldwide to ensure that the planet doesn't reach a place in time where we have to face the extreme negative impacts of climate change.

4. *Energy Sources are shifting*

Renewable energy sources are becoming cheaper and scalable. The dynamics of the oil market are steadily shifting as well due to supply and demand drivers and natural gas is now cheaper than coal.

5. ***Technology is changing what we demand and how we consume it***

Whether it's driverless cars, smart metering, renewables in oil and gas, online sales, or robo-advisers in asset management, most sectors of the economy are seeing paradigm shifts in the way business is conducted.

6. ***Demographics are changing***

Millennials and Generation-X are increasingly taking over from Baby Boomers in positions of influence, changing business, financial and political landscapes. The population are more aware and more active in promoting best ESG practices to ensure that the planet flourishes rather than diminishes.

7. ***Social Media is driving convergence in social norms***

Given its borderless nature, social media has the potential to alter the cultural blueprint of countries, and for investors as it affects their preferences in line with the latest social norms.

8. Population is increasing

By 2050, there will be 2.3 billion people in the world over age 65, according to the United Nations. The population is more than the carrying capacity of the planet and will continue to grow. This leads to overconsumption

9. ***Regulations are providing new direction***

ESG considerations have driven new regulations in a growing list of countries, which is affecting how organizations are receiving funding and the long-term paths they are taking in terms of the organization as a whole.

10. ***Value chains are global***

Value chains are complex and if poorly managed can prove costly. Investors can be quick to punish companies for child labour practices, human rights issues, environmental impact and poor governance.

SOURCE: PIMCO, 2021

CHAPTER-III

3. ENVIRONMENT SOCIAL GOVERNANCE (ESG) SIMPLIFIED

While ESG does have a lot of variables and it isn't the same for every company or investor and is very subjective based on who is doing the analysis or looking to invest. When looking at ESG, it might seem complicated because of all components that the three core pillars contain. However, what most investors look at overall can be broken down into various criteria within the core pillars; Environmental, Social and Governance.

ICE&SDGs is presenting a simplified version of ESG to for the industry to leverage on the benefits provided by the ESG analysis. We present the gambit of ESG to leverage the benefits of monetary reporting for enhancing their contribution to global goals SDG 2030.

Figure 1. ESG in a Nutshell

The reporting format provided by SEBI, GoI i.e. BRSR follows 3R approach for reporting i.e. Research, Recalibrate and Report.

CHAPTER- IV

4. THE PROCESS OF ESG REPORTING

4.1. WHY SHOULD ESG INFORMATION BE REPORTED

An organization may want to report ESG information for one or many reasons. The reasons can include a lot of factors from regulatory compliance to explaining how a company will create long-term value through their business practices. The following are possible situations in which companies should report ESG information and what the company needs to ask themselves to enable them to take the right approach.

SITUATION	QUESTIONS TO ASK
Satisfy compliance requirements	The company should ensure that they are aware of the following: *1. Which requirements apply to the company?* *2. What are the necessary steps needed to comply to the requirements.*
Describe how the company creates value	*How does the business model take inputs from the various types of capital and transform them through business activities and interactions to produce outputs and outcomes that create value?*
Report contributions to international commitments such as the Paris Agreement and Sustainable Development Goals	*Which SDGs are important to the business?* *Where does the company have the biggest impact?* *Where are the opportunities?*
Respond to stakeholders, NGOs and societal expectations	*Have NGOs and stakeholders received specific requests or has the company committed to responding to stakeholder feedback?*

Participate in ratings and indices	*Are key stakeholders using ratings and indices? Is participation of strategic or reputational importance?*

The reporting objectives best suited to investor needs are those that focus on the way in which companies integrate ESG factors into their strategies and manage ESG risks and opportunities to support resilience, growth and long-term value creation.

SOURCE: WBCSD

4.2. FOR WHOM SHOULD ESG INFORMATION BE REPORTED

Organizations have various stakeholders. They can be internal (employees and management), external (government and society) or connected (investors and shareholders). A wide range of groups–NGOs, special interest groups, regulators, consumers, local communities, ratings agencies, etc.– may produce and use external ESG information.

When exploring disclosure options and possibilities for a given stakeholder or stakeholder group, companies may consider a number of different relationships and connections.

1. Responsibility – legal, financial and operational-regulation, contracts & policies

2. Influence – ability to influence license to operate and the ability of a company to meet its goals

3. Proximity – most interaction, internal stakeholders, long-standing relationships & day-to-day operations

4. Dependency – employees and families, customers dependent for safety, livelihood, health or welfare

5. Representations– representatives through regulatory structures, unions & membership organizations.

6. Investors - social impact investors assess the businesses / scope of investment, on the basis of ESG reports.

4.3. CHANNELS FOR ESG REPORTING

Mainstream Report	The annual reporting packages organizations must deliver under the corporate, compliance or securities laws of the country in which they operate, in order to provide information to existing and prospective investors about the financial position and performance of the organization. They usually contain financial and governance statements and management commentary.
Integrated Report	An integrated report explains to providers of financial capital how an organization creates value over time. An integrated report aims to provide insights into the resources and relationships used and affected by an organization. It also seeks to explain how the organization interacts with the external environment and the capitals to create value over the short, medium and long term.
Sustainability Report	A report published by a company or organization about the environmental and social impacts caused by its everyday activities and to communicate sustainability performance and impacts.

SOURCE: WBCSD

4.4. WHAT ESG REPORTING DOES FOR AN ORGANIZATION

1. Raises Corporate Transparency

It broadens organizational disclosure beyond traditional financial metrics and raises corporate transparency on environmental and social metrics.

Sustainability reporting allows a balanced and understandable assessment of the company's performance by stakeholders to facilitate corporate accountability.

2. Strengthens Risk Management

Sustainability reporting allows listed companies to consider emerging risk areas and to identify opportunities presented by risks that are overlooked by other analytical and system driven approaches. A risk management approach that incorporates sustainability provides management with useful data for identifying emerging issues and developing appropriate responses that help protect corporate reputation and improve shareholder value.

3. Promotes Stakeholder Engagement

Identification of and engagement with stakeholders are fundamental to sustainability reporting and are cited as critical steps by various international sustainability frameworks. Listed companies need to identify their stakeholders to effectively engage those that are interested in and affected by the company's sustainability performance. Given the varied nature and interests of stakeholders such as shareholders, employees, customers, suppliers and

communities, stakeholder engagement enables the company to take into account the Information needs of various stakeholders with regards to the disclosure of sustainability related information.

4. Measure Non-Financial Performance

By broadening disclosure beyond financial disclosure to include non-financial disclosure of environmental and social interaction and impact, the company provides a framework for measuring non-financial performance. It also gives guidance on the opportunities and threats faced in managing non-financial risks. Sustainability reports can be used for bench-marking and assessing sustainability performance with regard to existing frameworks, demonstrating how the organization influences and is influenced by expectations about sustainable development, and facilitating peer comparison over time and enabling communication with stakeholders.

SOURCE: BSE Guidance Document on ESG Disclosures

CHAPTER-V

5. CHALLENGES AND OPPORTUNITIES

FROM IMPLEMENTATION OF ESG MONITORING AND REPORTING SYSTEMS

The following sectors, industries and organizations will significantly gain from ESG monitoring systems and reporting:

INDUSTRY	ORGANIZATIONS	REGULATORY AUTHORITIES
Heavy Industry	Investors	State Governments
Industrial Clusters	Educational Institutions	Pollution Control Board
Fast-moving Consumer Goods (FMCG)	New Companies striving to prove social impact	Municipal Corporations
Mining		City Administrations
Manufacturing industries		
Automobile		

5.1. CONGLOMERATES

The environmental, social and governance criteria helps assess how a company performs as a steward of nature, how it manages its relationships with stakeholders and how transparent it is with regard to its disclosures and management practices while emphasizing a high degree of moral and ethical leadership. The world is increasingly depending on companies to make sustainable choices.

Conglomerates & companies undertake measures to decouple growth from their environmental footprint and focus on eco-friendly operations, manufacturing facilities and activities, with the objective of minimizing the impact of operations on and nurturing biodiversity.

Without ESG monitoring and reporting systems, companies will have to tackle the following risks:

- With higher prices, companies may become uncompetitive in price sensitive markets and may loose its market share as a result.
- Companies may face challenges in finding and/or training skilled workforce to implement ESG at various stages and for each of the three pillars of ESG
- Companies may face high capital expenditure to implement the ESG strategy, which may not be economical for the size of the company.

By adopting ESG monitoring and reporting systems, companies/conglomerates experience the following benefits:

Environmental Benefits

- Operating expenses are lowered when a company is being mindful of energy usage, reducing spillage and using green raw materials reduces a company's carbon footprint
- Companies using green production makes future production processes more efficient and lowering its future cost.

Social Benefits

- Companies are able to charge higher prices for their products.
- Employee productivity is significantly increased
- Companies have an increment in sales to customers (B2B or B2C) favoring sustainable products.

Governance Impact

- Government bodies look favorably when issuing permissions and licenses.
- Companies are allowed easier access to markets or expand existing ones.
- Companies are able to minimize regulatory and legal interventions
- Companies are able to optimize Investment and Capital expenditures.

SOURCE: Consolidary, 2020

5.2. INDUSTRY

According to reports, solid ESG practices result in better operational performance in 88% of companies. The stock price performance of 80% of companies was positively influenced by good sustainability practices and lowered the cost of capital of 90% of companies according to the Economic Times. Not only that, but, companies with strong sustainability scores showed better operational performance and were less of an investment risk.

ESG has had a positive impact on gender pay equity, diversity, improving supply, chain human rights policies, and LGBT equality in the workplace and this is a critical attribute to a well-functioning organization.

Key aspects of corporate governance include corporate responsibility, data disclosure, political contribution transparency, and board diversity. These have helped companies and the industries they belong become sustainable in the long run and reduce the risk management cost.

SOURCE: Economic Times, 2020

Without ESG monitoring and reporting systems, industries will have to tackle the following risks:

- Without standardised metrics, industry-wide comparisons may not be meaningful and result distorted interpretations
- It may be difficult for organizations to chart progress, identify and act on red flags, and meet the reporting policies increasingly required by key stakeholders

By adopting ESG monitoring and reporting systems, industries experience the following benefits.

Environmental

- Improved resource management and sustainability
- Better risk management

Social

- The organization becomes more attractive to investors
- Ability to attract and retain employees
- Satisfy customer and stakeholder demands

Governance

- Proactive regulatory compliance
- Greater profitability.

SOURCE: JD Supra, 2021

5.3. INVESTORS

The impact of ignoring the sustainability aspect of a business has a material and a long-lasting impact on the business, the investors and all the other stakeholders.

As a lot of investing decisions occur based on financial statements, ESG is an additional toolkit to analyze the companies based on qualitative aspects which are often missed out in the financial statements. Any company which is doing well today and hopes to

sustain this progress in the future will be mostly compliant with the ESG criteria. ESG factors provide insights into the quality of a company's management, culture, risk profile, and other characteristics.

A study by Harvard Business School have found that ESG compliant companies have outperformed other non-ESG compliant companies by as much as 40%.

Without ESG monitoring and reporting systems, investors stand to face the following risks:

- Uncertainty in terms of the security of their investment
- Lack of knowledge of the company's non-financial operations
- Lack of information about the company's effect on its surrounding i.e. people and surrounding areas
- False projections of company's growth based solely on financial statements

Investors stand to get the following from a company that regularly conducts ESG monitoring and reporting:

- A better ROI
- A sustainable investment in the long run
- Investors are assured that the company they invest in has competent management
- Their investment is safe because the company has a highly motivated workforce

SOURCE: Harvard Business Review, 2020

5.4. BANKS

Banks can reap the benefits of sustainable finance if they add to the loan product with a strong advisory model for large enterprise clients and a standardized digital solution for small businesses.

- Loans and bonds linked to ESG projects are soaring. While Europe is in the forefront of this phenomenon, the trend has caught on in other regions as well.
- Banks pursuing this business may have higher costs of diligence and reporting, but those are offset by a lower cost of risk. According to Bain's new analysis, the cost of risk is 32% lower over five years.
- Evidence is mounting that sustainable finance does not hurt the return on assets for banks, and it earns stronger customer loyalty.
- To thrive in this area, banks need to develop products that suit the specific client segment, along with advisory services to help clients succeed and a comprehensive customer experience.

SOURCE: Bain & Company, 2020

5.5. GREEN PROJECTS

Economic growth, environmental conservation and social responsibility are all interlinked. The ESG criteria are making businesses invest more and more in green projects to ensure that they are doing their part in preserving the environment. Green projects are aimed at reducing a company's carbon footprint and fostering an environment that adds to rather than takes from the environment.

Green projects are funded by green finance which covers the following areas:

- Renewable energy and efficiency
- Sustainable use of natural resources
- Pollution prevention and control
- Conservation of biodiversity
- Circular economy initiatives

To enable organisations to execute such projects, investors invest their money with companies that are actively involved in being the harbingers of change to make the world a better place.

SOURCE: Outlook India, 2021

5.6. CSR & SUSTAINABILITY DEPARTMENTS

CSR and Sustainability departments in the industry, at Multinational Corporations (MNC) and at Public Sector Undertakings aim to to give back to the community, take part in philanthropic causes, and provide positive social value. Corporate social responsibility is traditionally broken into four categories: environmental, philanthropic, ethical, and economic responsibility.

As such, it ties into ESG monitoring and reporting to create a sustainable environment for all internal and external stakeholders of the organization. Environmental responsibility refers to the belief that organizations should behave in as environmentally friendly a way as possible. Ethical responsibility is concerned with ensuring an organization is operating in a fair and ethical manner. Organizations that embrace ethical responsibility aim to achieve fair treatment of all stakeholders, including leadership, investors, employees, suppliers, and customers. Philanthropic responsibility refers to a business's aim to actively make the world and society a better place. Economic responsibility is the practice of a firm backing all of its financial decisions in its commitment to do good in the other three areas i.e. environmental, ethical and philanthropic responsibilities.

SOURCE: Harvard Business School

With reference Environmental responsibility refers to the belief that organizations should behave in as environmentally friendly a way as possible. Companies Act 2013, Section 135, Schedule VII, No. 4 which enumerates the activities of a company which are covered under Corporate Social responsibility, the following ESG parameters are covered:

- "(iii) promoting gender equality, empowering women, setting up homes and hostels for women and orphans; setting up old age homes, day care centres and such other facilities for senior citizens and measures for reducing inequalities faced by socially and economically backward groups.
- "(iv) ensuring environmental sustainability, ecological balance, protection of flora and fauna, animal welfare, agroforestry, conservation of natural resources and maintaining quality of soil, air and water"

Adopting ESG best practices, the companies will automatically be participating in CSR activities that are mandated under law, without having to make any separate effort for the same.

SOURCE: Ministry of Corporate Affairs, Government of India

CHAPTER-VI

6. CHALLENGES TO OVERCOME WITH ESG MONITORING AND REPORTING

The three letters; 'E', 'S' and 'G' are excellent criteria for investors to the understand the performance of companies, the letters can end up creating challenges in the boardroom of companies as they try to navigate environmental, social and governance issues. There are some broad challenges faced by industry.

6.1. FINDING THE RIGHT FRAMEWORK

With SASB, TCFD, GRI and beyond, the proliferating array of ESG acronyms and frameworks have left much confusion and "analysis paralysis" in their wake. Without standardized metrics, it's difficult for investors to evaluate companies. Equally, it's challenging for companies to know where to invest the considerable amount of time each framework demands.

6.2. MEASURING AND TRACKING PERFORMANCE

Many ESG principles have historically lacked common definitions and metrics. To complicate the challenge even more, many ESG issues span organizational functions and departments. For example being a good environmental steward means different things for different organizations and industries. Since the criteria are very subjective, the tools used for tracking and measurement varies from industry to industry and from organization to organization as well. Such complexities make it difficult for organizations

to chart progress, identify and act on red flags, and meet the reporting policies increasingly required by key stakeholders.

6.3. TRACKING STAKEHOLDER SENTIMENT AND ORGANIZATIONAL REPUTATION

In today's dynamic business environment, staying up to speed and ahead of the curve has never been more important. Corporations must increasingly tune into the sentiment of their stakeholders to proactively respond to needs and priorities and alert the board and management to any potential issues. Corporations have to deal with regulatory changes, investor updates, emerging trends, activist sentiments and more. A company's reputation, compliance status, revenues and competitive edge all depend on timely, trusted insight and decision-making.

6.4. VISUALIZATION AND RISK MITIGATION

ESG initiatives don't operate in a vacuum. For boards to most effectively quantify ESG risk, value and impact and proactively mobilize efforts, the following need to be taken care of:

- Internal audit efforts need to align with the latest regulations

and governance guidelines

- Compliance needs a centralized view of organizational and business partner actions
- Investor relations teams need to be able to clearly communicate the latest ESG strategy to investors and other stakeholders, from the net present value of current initiatives to new opportunities

SOURCE: Diligent Insights, 2021

While some challenges are industry-wide or world-wide, there are also challenges that exist under the umbrella of each of the three pillars of ESG; Environmental, Social and Governance. These challenges can either be seen as a hindrance or an opportunity for an organization raise its standards.

6.5. ENVIRONMENTAL

Climate Change **-** Companies must aim to improve their resource productivity (such as reducing energy consumption) and decrease their carbon emissions.

Sustainability **–** Environmentally sustainable business practices encourage corporations to interact responsibly with the planet to maintain natural resources and avoid jeopardizing the needs of future generations.

Waste Disposal**-** By reducing, reusing, and recycling waste, businesses can preserve the environment while conserving natural resources.

6.6. SOCIAL

Equality & Diversity **–** Inclusivity typically centers around creating a balance of individuals from different demographics, backgrounds, and cultures.

Consumer Protection – Investors value consumer protection as it makes markets work for both businesses and consumers.

Human Rights – It's vital that employees all over the globe have access to fair and just working conditions.

6.7. GOVERNANCE

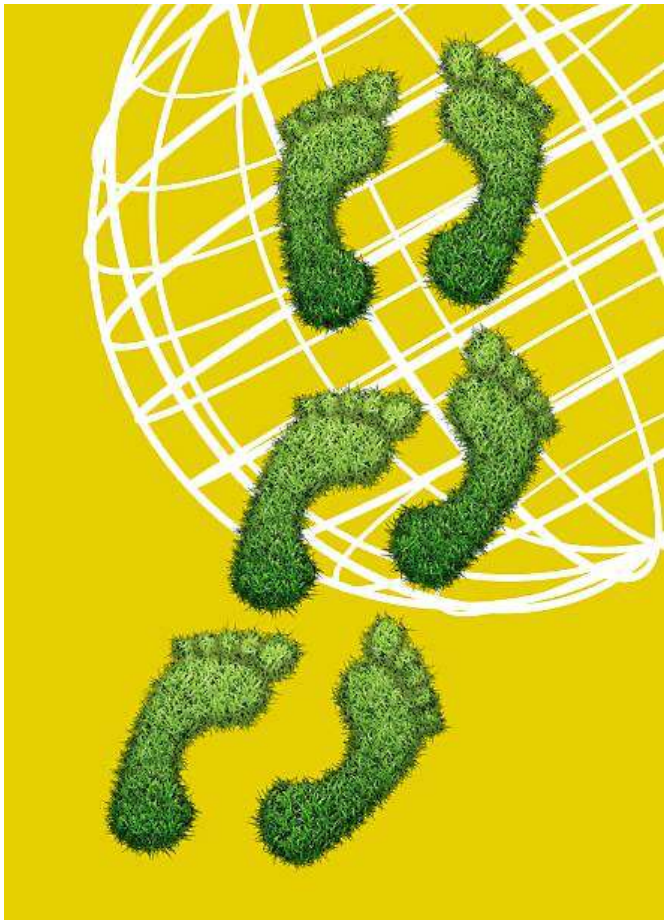
Employee Relations – When employers build healthy relationships with their employees, the entire company stands to benefit.

Management Structure – Investors gravitate toward organisations with well-structured management with a clear direction for business activities.

Board Composition – The expertise, experience level and diversity in an organisation's boardroom play a critical role in making sure a business is led effectively.

Strategy & Innovation – Innovation is critical to growth, and an effective business strategy offers clear direction for companies and prospective investors.

SOURCE: INAA Group



CHAPTER: VII

7. INNOVATION @ESG

While ESG is a term that has been around since 2005, more and more industries are driving innovation and creating new ways to implement ESG. There are a plethora of innovations when it comes to ESG depending on the industry, the organization and its geographical location. Three such innovations are listed below that have had an everlasting impact on how ESG criteria is viewed and reporting today.

7.1. NASDAQ's ESG REPORTING PROGRAM

NASDAQ launched a pilot program on ESG reporting for its Nordic and Baltic markets. They provided a service called Nordic Sustainable Bond Market which was designed to highlight sustainable investment opportunities that attract investors with a green, social or sustainable agenda. This program solution focused on industry ethical standards and national and international frameworks on corporate sustainability and sustainable

development. As the program evolved over time, ESG now provides data-driven metrics to evaluate whether companies are properly following through with their sustainability goal agendas. These metrics include elements such as carbon footprint, workplace diversity, and a variety of other factors that reflect how socially and environmentally responsible a company may be.

SOURCE: NASDAQ, 2020

7.2. CHINA'S GOVERNMENT SHIFTS TO A CIRCULAR ECONOMY MODEL

As it is well known, China was one of the first countries to suggest and implement transitioning to a circular economy and drawing a road-map for the same. Improving self-sufficiency of critical major resources, such as oil, natural gas and metals was and is a priority of the road-map. What China has done has encouraged industrial-material producers to control production, switch to cleaner fuels, upgrade recycling technologies and improve scrap collection, which could reduce the need for primary resources in the medium term, and support the search for cleaner and more resource-efficient alternative materials.

SOURCE: Sustainable Fitch

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CHAPTER-VIII

8. ESG FRAMEWORKS - AROUND THE GLOBE

ESG Frameworks vary from country to country. Some are mandatory, while some are voluntary. Below is a list of some of the most notable ESG frameworks from around the globe.

8.1. REPORTING FORMATS

Business Responsibility and Sustainability Reporting (BRSR), India

The Business Responsibility and Sustainability Reporting ("BRSR"), originating from the MCA report on Business Responsibility Reporting, has found its way into the regulatory provisions by way of an amendment to the Regulation 34(2)(f) of the Listing Regulations, notified on 5th May, 2021.

The BRSR will replace the existing BRR format w.e.f. FY 2022-23. For the FY 2021-22, the top 1000 listed entities may voluntarily submit the BRSR and from FY 2022-23 onwards, the same has to be submitted mandatorily. It is notable that the BRSR, though replacing BRR, is actually an extension of the existing BRR reporting While the BRSR has been made effective from FY 2022-23.

BRSR Lite enables the non-listed businesses to monitor and report their ESG impact, and provides an opportunity to improve upon.

CDP	CDP is a popular voluntary reporting framework that companies use to disclose environmental information to their stakeholders (investors, employees, and customers). Reporting is completed on an annual basis with the portal opening in April every year with submissions due in July. CDP maintains this data in an open database and proclaim to hold the world's most comprehensive collection of self-reported environmental data.
Climate Disclosure Standards Board (CDSB)	The Climate Disclosure Standards Board (CDSB) is an international consortium of business and environmental NGOs. We are committed to advancing and aligning the global mainstream corporate reporting model to equate natural capital with financial capital. They do this by offering companies a framework for reporting environmental information with the same rigor as financial information. In turn this helps them to provide investors with decision-useful environmental information via the mainstream corporate report, enhancing the efficient allocation of capital. Regulators also benefit from compliance-ready materials.
Global Reporting Initiative (GRI)	The GRI framework aims to enable third parties to assess environmental impact from the activities of the company and its supply chain. The standardized reporting guidelines concerning the environment are contained within the GRI Indicator Protocol Set. The performance indicators (PI) include criteria on energy, biodiversity and emissions. There are 30 environmental indicators ranging from EN1 (materials used by weight) to EN30 (total environmental expenditures by type of investment).

Science Based Targets initiative (SBTi)	The SBTi's Corporate Net-Zero Standard is the world's first framework for corporate net-zero target setting in line with climate science. It includes the guidance, criteria, and recommendations companies need to set science-based net-zero targets consistent with limiting global temperature rise to 1.5°C. The Net-Zero Standard provides a common, robust, and science-based understanding of net-zero. It gives business leaders clarity and confidence that their near- and long-term targets are aligned with climate science - helping to ensure a habitable planet for all.
Sustainability Accounting Standards Board (SASB)	The Sustainability Accounting Standards Board (SASB) is an ESG guidance framework that sets standards for the disclosure of financially material sustainability information by companies to their investors. SASB asks companies to highlight specific disclosures and supply guidance on best practice for communicating those Environmental, Social, and Governance topics through standardized formatting. SASB's requirements are focused on what information should be disclosed, but only supplies recommendations on where to disclose or how to share the ESG-related information. This flexibility aims to allow companies to share these data points through a means that makes sense for their organization, whether by Annual Report, Registration Document, or other financial reporting systems.

UN Principles for Responsible Investment (PRI)	The PRI is the world's leading proponent of responsible investment. It works to understand the investment implications of environmental, social and governance (ESG) factors. It also works to support its international network of investor signatories in incorporating these factors into their investment and ownership decisions. The PRI is truly independent. It encourages investors to use responsible investment to enhance returns and better manage risks, but does not operate for its own profit; it engages with global policymakers but is not associated with any government; it is supported by, but not part of, the United Nations.

CHAPTER-IX

9. ESG MONITORING AND REPORTING: MAKE A DIFFERENCE

Even though ESG has been around is 2005, it is now gaining traction and gaining global attention.

9.1. DIGITAL ESG MONITORING AND MANAGEMENT SYSTEM

ESG criteria have emerged as a critical element of measuring performance, meaning its essential for organisations to quantify their efforts reliably. Even although ESG is widely valued and broadly understood to some extent by every organisation, linking tangible impacts to real-world outcomes is a challenge. Unfortunately, due to inconsistencies in measuring ESG, its full potential is often undermined.

On top of that, without a standard measurement across industries means that individual businesses are prone to overlooking unique ESG risks and opportunities. Databases contain thousands of ESG indicators that reflect a company's individual position. With a data-led approach, businesses can both understand and utilise collected information to boost ESG performance.

SOURCE: INAA Group

Digital programs and Management Solutions are available and being developed to centralise ESG data, measure and manage risk and track progress of the three pillars of ESG for creating reporting programs. These create efficient and unified ways to track, measure and report on company's ESG goals and initiatives. Digitization has helped the key stakeholders, centralize information, align frameworks, analyse risk and report on their ESG programs.

Digital ESG monitoring systems provide the following benefits:

- Create an ecosystems to help corporations identify and understand the ESG risks
- Reduce complexities and accelerate ESG data gathering
- Assess and address internal risks and gaps
- Provide data, analysis and tools to drive quantifiable improvements in ESG
- Improve their ESG standards which can be their USP.

Corporate focus has shifted on its long term sustainability and ethical issues. The current trend reflects the growth of responsible investing.

To implement ESG strategy, companies have to take into consideration the varying interests of stakeholders, e.g. different priorities supporting each of the three pillars of ESG to ensure long term profitability of the organisation, aligning of employees personal values and goals to the company's, ethical choices of consumers when buying and selecting from available products.

Responsible companies are independently providing sustainability reports along with their statutory financial reports, showing their commitment to ESG.

SOURCE: INAA Group

9.2. ACCOUNTING STANDARDS IN ESG

Corporations have been in discussions on how ESG matters effect company’s business strategy, operations and long term value. However failing to consider the impact on company’s accounting conclusions and financial reporting. This has led to the question whether a company needs to incorporate ESG considerations when

preparing its financial statements.

An educational paper by the Financial Accounting Standards Board(FASB) on the intersection of ESG with the accounting standards, have highlighted the connection between ESG and the financial statements. directly and indirectly. Many accounting standards require the entity to consider the material effect of changes in business and operating environments on the financial statements. Often these considerations are related to aspects of accounting which require management judgement and estimation, resulting in direct/indirect impact on the financial statements.

SOURCE: Deloitte

The Sustainability Accounting Standards Board (SASB) is one organization that has created 77 industry standards. SASB Standards identify the subset of environmental, social, and governance issues most relevant to financial performance in each of 77 industries. They are designed to help companies disclose financially-material sustainability information to investors. Each industry has a set of standards that they should follow to ensure that a minimum set of sustainability issues most likely to impact the operating performance or financial condition of the typical company in an industry, regardless of location are identified through the metrics.

For example, in the automotive industry, the metrics that the SASB considers most pertinent to evaluate the operating performance or financial condition of a company are:

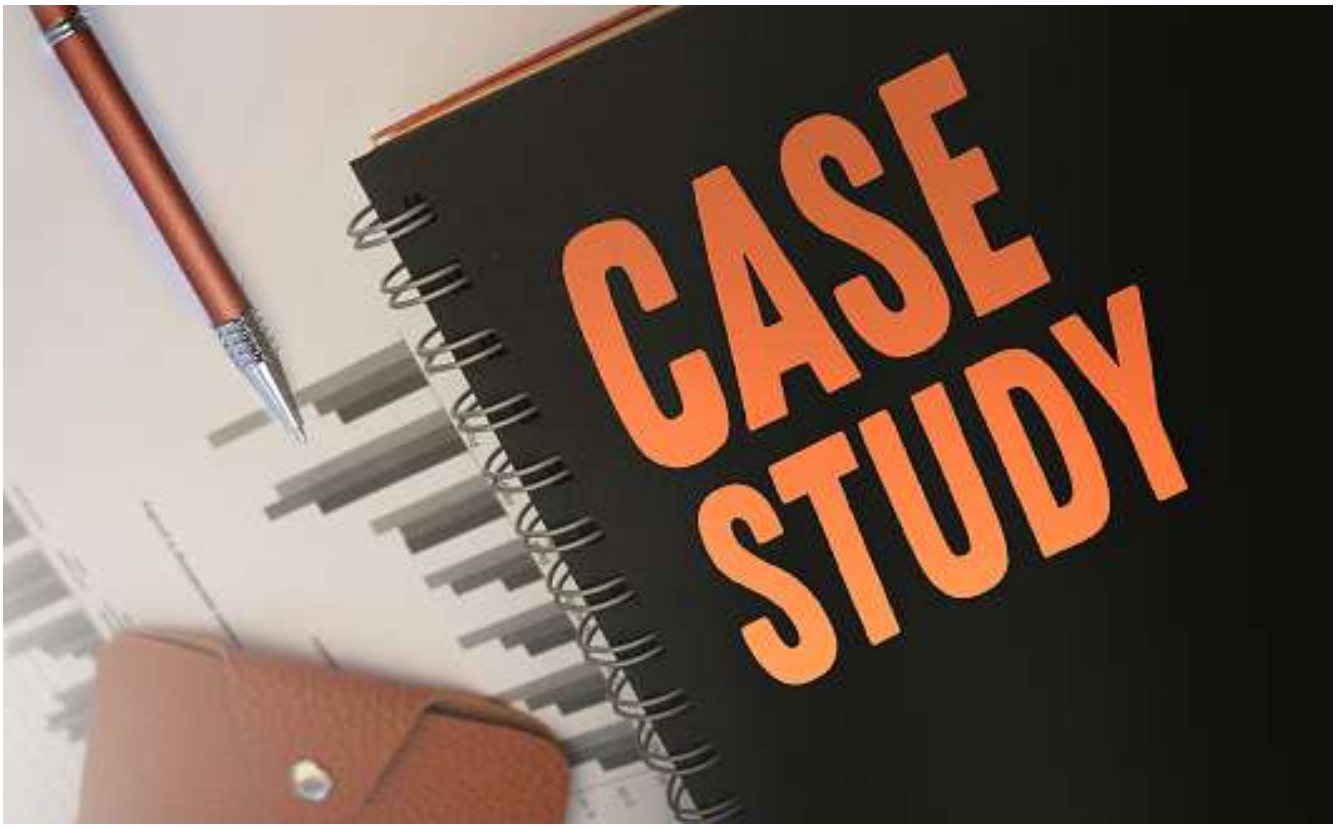
1. Product Safety
2. Labor Practices
3. Fuel Economy and Use-phase Emissions
4. Materials Sourcing
5. Materials Efficiency & Recycling

SOURCE: SASB

The following figures illustrate how accounting standards are being implemented today are widely accepted as industry standard by companies and investors.

CHAPTER-X

10. CASE STUDY



While discussing the theoretical details of ESG is important, what is even more important is seeing it in practice. To do so, let's dive into a few case studies that the positives that come with complying with ESG regulation and the downfalls that can occur when regulations are not complied with. The case studies show how ESG factors can influence investment decision-making, valuation of bonds and potentially the overall return of an investment.

10.1. SOUTH AFRICAN RETAIL HOLDING COMPANY: FALLOUT OF CORPORATE GOVERNANCE

A South African international retail holding company listed in South Africa and Germany issued its first corporate bonds in July 2017, maturing in 2025 with a 'Baa3' rating by Moody's. i.e. the lowest rating of investment grade Moody's long term corporate obligation rating. To compare the rating of bonds of the holding company to the other

bonds in the same cohort, the Morgan Stanley Capital International (MSCI) ESG rating was imposed for each bond indicating that the median ESG rating is quite low.

An investigation into the same revealed that though the company scored fairly well on its environmental score, it scored very poorly on the social and governance criteria. This was more so because in 2017, the company disclosed accounting irregularities in the previous two years, relating to extreme revenue and expense recognition. Shortly after the announcement the bond fell 50% in value, indicating how failure in even one of the pillars of ESG (Governance) can affect the value of investment, despite doing fairly well in other pillars of ESG (Environment). This clearly shows the impact that poor performance in any of the three ESG criteria can have on the value of the company and its impact on the investors portfolio.

10.2. INTERNATIONAL MINING COMPANY: ESG RISK MANAGEMENT

This case study investigates the impact from the fallout of things sacred to a local community by analyzing the financial and regulatory consequences from it. The company destroyed two rock shelters which were of sacred significance to the local community. It was recognized that this was the result of the failure of corporate governance and not realizing the gravity of the sensitivity of the project, rather than the legalities involved. An internal review exposed the systematic flaws in the company's policies & practices (Governance) and poor relationship with the local aboriginal community (Social).

The company did not face significant financial and regulatory consequences as a result, nor its share price or bond spreads were impacted. An analysis revealed how the company was exposed to underlying governance risks and how it was managed poorly.

Companies that manage ESG risks better get the upper hand as investors choose the best managed companies for their portfolios. Failure to

manage ESG risks leaves stakeholders vulnerable to public controversy, despite not having a financial impact on the company. Investors can identify better with companies who have a system of managing ESG risks rather than companies that manage them poorly.

10.3. NET ZERO ALIGNMENT AND QUALITY OF ESG RISK MANAGEMENT

To meet the need for additional capital to transition to Net Zero environment by 2050, under The Paris Agreement, both corporations and governments are expected to turn to the bond market. Investors having a choice between two corporations that have plans to transition to a net zero environment are more likely to choose the one which is more climate aware than its peers.

Although all corporates meet the minimum standards required under The Paris Agreement, there is wide dispersion in the quality of their ESG risk management. Analysis has shown that companies with a high ESG score in the index are more successful. Analysing the scenario post COVID by stimulating the price returns for both, the net zero aligned portfolio and the index has shown the success of corporations which implemented a comprehensive ESG policy. They generated better total price returns for net aligned portfolio which was +3% as against +2.7% for the companies that looked to only meet the minimum standards.

It can be concluded that the Net-zero transition risks are rising for corporations and asset owners alike. Corporations with an integrated approach to ESG data management can readily identify those Paris Agreement-aligned corporations who manage their ESG risks better than their peers. Furthermore, a net zero aligned portfolio which includes implementing a best in class ESG policy would produce higher returns.

10.4. NORTH AMERICAN JEWELLERY RETAILER

A large cap Private Equity (PE) investor was pursuing an investment opportunity with a North American jewellery retailer. The company has expanded substantial retail operations across US & Canada, with extensive network of suppliers/manufacturers in the Asia Pacific Region. It is standard practice for this PE firm to conduct a high-level ESG screen for all new investments. For this type of business where manufacturing was outsourced and retail locations were leased, it did not make sense to conduct "traditional" environmental due diligence focused on soil and groundwater contamination and associated liability. However, the ESG screen did result in a potentially critical finding that needed to be addressed by the seller before the deal could move forward.

During the due diligence investigation, it became clear that the target knew very little about the companies it was buying precious metals and finished goods from in the Asia-Pacific region. By reviewing the ESG/Sustainability performance of key market competitors, it was revealed that a key competitor had all of its suppliers (also located in the same geographic region) certified by the Responsible Jewellery Council while none of the target's suppliers carried this certification.

In this case, the ESG work-stream revealed the potential for supply chain issues (due to lack of visibility and sector certification), in addition to a competitive disadvantage from a brand positioning standpoint.

10.5. GLOBAL MANUFACTURER OF ARTIFICIAL TURF

The target company of this case study is in the business of manufacturing, installing and maintaining synthetic outdoor sports and recreational surfaces. These products include artificial turfs (AT) for sports fields, and polyurethane based running track surfaces, as

well as surfaces for other outdoor spaces such as playgrounds. The investment due diligence process included the “traditional” environmental legal and technical scope due to the target’s manufacturing operations. However, broader ESG factors were also investigated for the buyer, revealing the following risks and opportunities:

- A potential threat to the business was identified as certain raw materials may be phased out in the future (e.g., phthalates). The company did not have a robust management system in place to monitor this development on a global basis and, as a result, had not discussed or documented any steps to plan for the future replacement of these materials.
- The biggest potential risk to the business identified during due diligence was a potential link between long-term exposure to artificial turf and cancer which was considered from the article published by *Daily Telegraph*. The study, and related reporting, suggested higher instances of cancer amongst athletes who spent significant time on artificial turf whose core production processes, and the product itself, included reclaimed automotive tires. These studies indicated - more research was required before launching the product in the market.

10.6. US-BASED NATURAL GAS FIRED GENERATING STATION

A global infrastructure investor owned a natural gas fire generating station in its investment portfolio. This asset had undergone “traditional” environmental due diligence during the investment process, but a broader ESG screen had not been conducted. During the ownership period, an ESG issue arose and needed to be dealt with, which eventually impacted the expected ROI at exit.

The plant sourced its process cooling water from an adjacent river. The region of operation historically had experienced periods of extreme drought. During the investor’s hold period, the water levels in the river were lowered by a drought event that began impacting a local

salmon population. As a result, the plant was ordered by the local authorities to cease intake of water from the river. This unplanned event resulted in a brief outage, in addition to additional capital expenditures to establish an alternative water supply to the facility.

As a result, when the firm sold this asset, they did not achieve the full return that was anticipated in the original investment case and business plan. Had a broader ESG screen been conducted during the investment due diligence phase, it is reasonable to assume that an event such as this might have been identified, which would have enabled the investor to proactively plan for this type of future situation.

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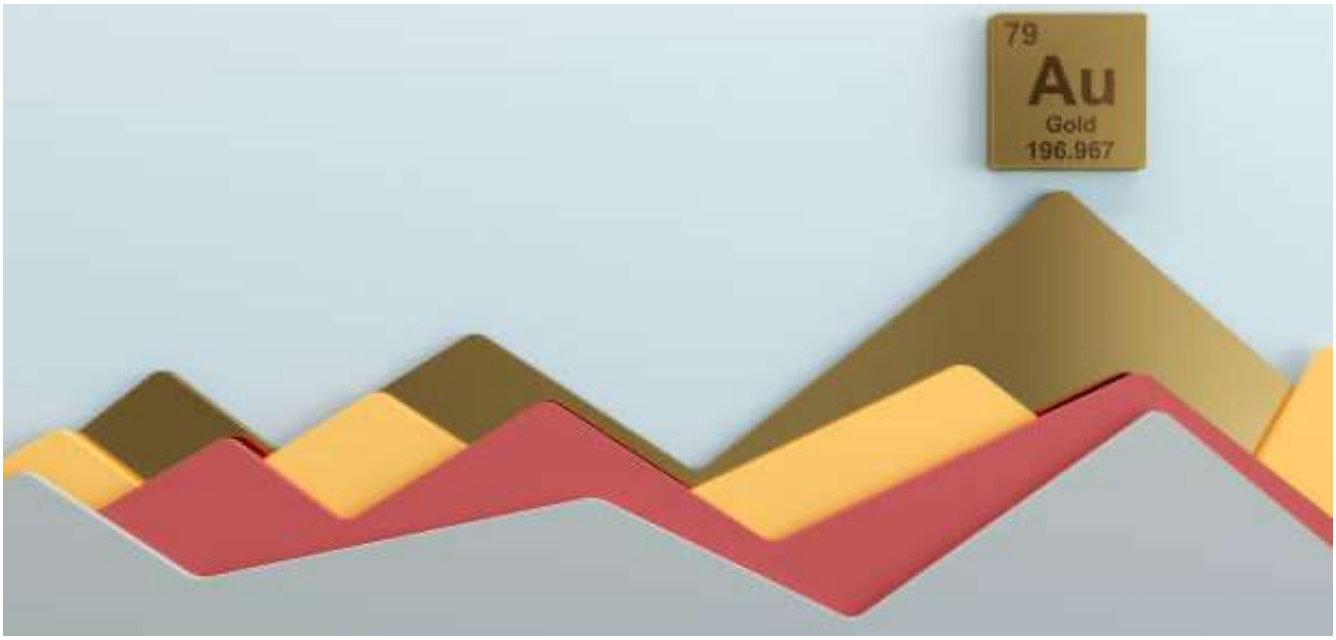

ABBREVIATIONS

1. ESG – Environment, Social, Governance
2. AUM - Assets Under Management
3. SASB – Sustainability Accounting Standards Board
4. TCFD – Task Force on Climate-Related Financial Disclosures
5. GRI – Global Reporting Initiative
6. ROI – Return on Investment
7. B2B – Business-to-business
8. B2C – Business-to-consumer
9. SRI – Socially Responsible Investments

ABOUT SANSHODHAN

Sanshodhan is a global company headquartered in Hyderabad, India, and have associates in Europe, the USA and Australia.

As a world-class knowledge based circular economy service company, it serves conglomerates, multinational companies, government departments and organizations those interested in adopting innovative models for integrating the circularity in their products, operations or services.

Sanshodhan serve well for environment, social, governance (ESG) impact of Circular Product, Services, and Operations, that support investors to analyse ESG impact vis-a-vis investment.

Sanshodhan advise businesses to concordat climate risk associated with waste emerging out of their premises, risk pertaining to waste management & related policy compliance and affiliated financial losses.

Sanshodhan's innovation i.e. “Digital Standard For E-Waste Management Sector”, magnetised the attention of world’s leading organizations and won the status of “Highly Commended The Circulars 2019” from World Economic Forum, Davos. Sanshodhan is the only emerging Indian company that is the Member of the apex working groups of Basel-Rotterdam-Stockholm Convention (BRS), United Nations Environment Program (UNEP), Europe.

India’s Circular Economy Potential in valued approx. INR 150000 billion (USD2000 Billion), by 2030. The effective implementation of Circular Economy models can potentially lead to 150 Million Tonnes CO_2 & Eq. Gas Emission Reduction per annum. In India, the digital-infrastructure for enabling the circular economy, have potential to turn 100 Smart Cities into Circular Cities. Over and above, circular digital-systems enables conservation of natural resources, use of recovered metals and materials, and reduce the need to mining of new materials and prevent the economic, environmental and social distress.

Sanshodhan’s expertise play’s vital role to enable businesses and organisation to realise such high impact social - economic- environmental benefits.

About Krÿstähl

Krÿstähl (a joint venture of Sanshodhan and ICE&SDGs) is your destination to learn the maths, science and art of sustainability, to create the music of ecological balance- for future generations to thrive without constraints.

Our DNA comprises of excellence, performance, transparency, reliability,integrity that weave into the world-class quality of our products and services.

Krÿstähl is globally recognized organisation, awarded by the World Economic Forum, Davos; won a Global SDG Award from RFI, United Kingdom & DDCAP Abu Dhabi and Swacch Bharat Grand Challenge award from DIPP, Government of India. It's innovativeness has attracted the attention of leading organizations, like NASDAQ Entrepreneurial Center, Silicon Valley; Climate-KIC & Circular Conversations, Europe; GGKP; IISD; RECP-Net UNIDO, Europe and many others. Krÿstähl's wing (Sanshodhan) is the only Indian company associated with apex working groups of the Basel-Rotterdam-Stockholm (BRS) Convention.

Krÿstähl provides capacity building and advisory services, and assists organisations to address key sustainability issues, prepare effective action plans, and enable the implementation of environmental, climate and sustainability strategies. Our products and services cover the entire gamut of ESG related consulting programs, certifications, training programs and related services.

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