

ESG OVERSIGHT IN INDIA

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.

ESG (Environmental, Social, and Governance)

1.About ESG

ESG stands for Environmental, Social, and Governance. It refers to a set of standards used to evaluate how responsibly an organisation manages its environmental footprint, treats people and communities, and upholds governance principles such as transparency, ethics, and accountability.

2.Relevance to India's Climate Challenges

India is one of the world's most climate-vulnerable countries, experiencing floods, cyclones, droughts, heatwaves, and rising sea levels. According to the Centre for Science and Environment (CSE), in 2024 alone, India faced extreme weather events on 322 out of 366 days. Companies that invest in clean energy, reduce emissions, and adopt sustainable practices can help mitigate such risks and ensure resilience against climate change.

3.Social Dimension for India

India faces deep-rooted social issues such as poverty, gender inequality, lack of access to education, and healthcare disparities. Companies that focus on inclusive policies, employee welfare, community development, and equitable opportunities contribute to reducing these social gaps and help build a fairer economy.

4.Governance Importance

Strong governance in companies, built on transparency, fair business practices, anti-corruption measures, and accountability, helps rebuild public trust in corporations. It also creates an attractive environment for both domestic and foreign investors, which in turn supports India's long-term sustainable economic growth.

Parliamentary Standing Committee Recommendations on ESG

1.Creation of Oversight Body

The committee has recommended setting up a specialised ESG oversight body within the Ministry of Corporate Affairs (MCA). This body would monitor corporate ESG claims to ensure that sustainability reporting is genuine and not misleading.

2. Inclusion of Forensic Experts

The committee suggested the inclusion of forensic auditors and experts who can detect fraudulent ESG claims, prevent misrepresentation, and identify cases of corporate greenwashing at an early stage.

3.Sector-Specific ESG Guidelines

The panel recommended preparing industry-specific ESG standards, as the environmental and social impact of industries like mining, IT, textiles, and energy differ significantly and require tailored benchmarks.

4.Support for MSMEs

Since Micro, Small, and Medium Enterprises (MSMEs) form the backbone of India's economy, the committee proposed support systems to help them adopt ESG-friendly practices, as smaller firms often lack technical and financial capacity for sustainability reporting.

5.Amendment to Companies Act, 2013

It proposed amending the law to make ESG compliance a core fiduciary duty of company directors, thereby embedding sustainability into board-level decision-making and long-term corporate strategy.

6.Penalties for Greenwashing

The committee stressed the need for faster and stricter penalties for false ESG claims to act as a strong deterrent against greenwashing and unethical practices.

7. Strengthening Fraud and Audit Institutions

The panel recommended building early-warning strategies for financial crimes and strengthening bodies like the Serious Fraud Investigation Office (SFIO) and the National Financial Reporting Authority (NFRA) to improve oversight capacity.

8.Better CSR Oversight

The committee also highlighted that the Corporate Social Responsibility (CSR) system must be made more transparent and effective, as many companies misuse CSR for image-building instead of genuine social development.

India's ESG-Related Initiatives

1.SEBI's BRSR Framework

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.

2.Alignment with Global Standards

The BRSR aligns with international frameworks such as the Global Reporting Initiative (GRI) and the Sustainability Accounting Standards Board (SASB), ensuring Indian companies can meet both domestic and global sustainability expectations.

Greenwashing

Greenwashing refers to the misleading practice where companies exaggerate or falsely claim that their products, services, or operations are environmentally sustainable. The intent is to create a false impression of eco-friendliness in order to attract environmentally conscious consumers and investors. It can take the form of false advertising, vague eco-labels, misleading product claims (like recyclable or biodegradable), or selective disclosure (highlighting small green initiatives while hiding major environmentally harmful activities).

Factors Contributing to Greenwashing in India

1. Rising Eco-Consumerism

Growing climate awareness among Indian consumers, particularly urban youth, has increased the demand for eco-friendly and sustainable products. To exploit this demand, companies use vague terms like "eco-friendly," "natural," or "organic" without proper certification or evidence of sustainable practices.

2.Weak Regulatory Enforcement

Although India has mechanisms like the Bureau of Indian Standards (BIS) Eco-Mark certification for eco-friendly products, adoption remains voluntary. Similarly, the Plastic Waste Management Rules focus on waste reduction but do not comprehensively address misleading environmental claims.

3. Fragmented Compliance Framework

ESG-related laws and rules are scattered across multiple regulations, creating gaps and inconsistencies. The absence of a unified compliance and enforcement mechanism allows companies to bypass strict accountability.

4.Lack of Strict Penalties

Penalties for false ESG claims or greenwashing remain weak or slow to enforce. This lack of deterrence emboldens companies to continue with deceptive marketing practices.

5.Cultural Exploitation in Marketing

Many brands exploit India's cultural heritage, using terms like "Ayurvedic," "herbal," or "natural," to market their products as eco-friendly. However, these claims often lack genuine environmental backing, as production methods may still involve harmful practices.

6. CSR as a Marketing Tool

Companies sometimes use symbolic CSR activities, such as tree planting campaigns, to showcase environmental responsibility, while continuing to operate in environmentally destructive industries like fossil fuels, chemicals, or heavy manufacturing.

India's Initiatives Against Greenwashing

1. Consumer Protection Act, 2019

The Central Consumer Protection Authority (CCPA) regulates misleading claims, including false environmental advertising, under this act.

2.Green Rating Project (CSE)

The Centre for Science and Environment (CSE) runs a Green Rating Project that evaluates and rates industries based on their environmental performance, helping expose unsustainable practices.

3.Advertising Standards Council of India (ASCI)

ASCI has issued guidelines stating that advertisements making green claims must be clear, verifiable, and not misleading to consumers.

Source: <https://www.thehindu.com/news/national/parliamentary-panel-pitches-for-esg-oversight-body-to-combat-greenwashing-activities/article69896854.ece>