

India is an Attractive Destination for ESG Investments in South Asia: A Cross-Country Comparison

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Abstract

Investment in these three sectors – Environment, Social, and Government is known as ESG Investments. This paper gives an idea of why an investor shall invest in the ESG sector or components in India. In this study, ESG investment is considered from the macroeconomic point of view, not from the company's point of view. This paper explores the scope and potentiality of ESG investment in India in comparison to other neighbouring countries with the help of secondary data. It is found that presently India is the preferred destination for ESG investments among South Asian countries. This study will help socially conscious investors to set their investment strategy.

Keywords: Environmental; Social, Governance, and ESG Investment.

1. Introduction

ESG investment refers to investment in 'environment', 'social', and 'governance' factors or components. It integrates mainly social and environmental criteria into the traditional investment decision process. It has emerged as a new concept in investing, especially to ensure sustainability. Categorically, ESG investment is alternatively called as Socially Responsible Investment (SRI) or Sustainable Investment (SI) or Sustainable and Responsible Investment (SRI) or Impact Investment (II) or Green Investment (GI). These terms are often used interchangeably by different investors and institutions. ESG investment or SRI is already prevalent in developed countries, it is now gathering momentum towards emerging markets (Tripathi & Bhandari, 2014)¹. So, it is still an emerging concept in India. Till day, Indian investors are not familiar with the concept of sustainable investment. They are reluctant to invest in ESG factors and funds because most of them are new.

Presently, our country is giving more emphasis on ESG reporting. Different companies have already been started practicing of ESG Reporting. Our country already imposed different ESG regulations like Business Responsibility Reporting (BRR), CSR (Corporate social responsibility) reporting, Business Responsibility and Sustainability Report (BRSR) to make the companies accountable for ESG reporting like other countries.

As we know, first 'investing' comes then 'reporting'. First, someone has to invest then the question of 'reporting' shall come. Now, corporate entities are compelled to invest in ESG components to fulfill the Sustainable Development Goals (SDGs). The Covid-19 pandemic has been changing the orientation of an investor. Now investment decision becomes more crucial. Everyone has started looking for investment opportunities that not only generate good returns but also work towards a sustainable environment and society. In this backdrop, this paper gives an idea of why an investor shall invest in the ESG sector or components in India. In this study, ESG investment is considered from the macroeconomic point of view, not from the individual company point of view. This paper explores the scope and potentiality of ESG investment in India in comparison to other neighbouring countries.

2. ESG Investment – Considered Parameters

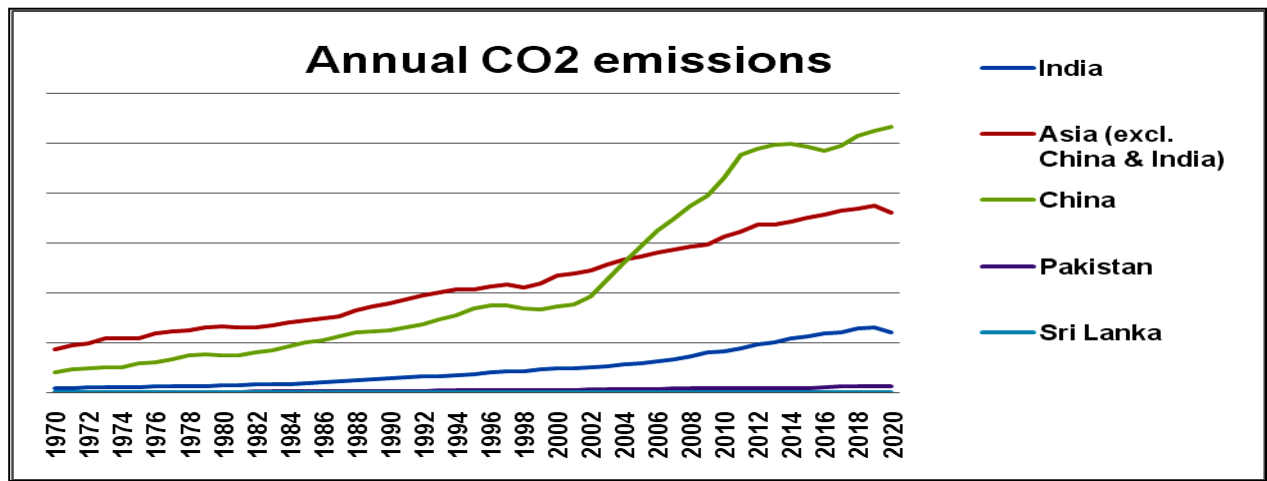
The parameters considered for the study are – Climate Change or Global warming prevention, Use of renewable energy, Biodiversity conservations for Environment (E); Access to electricity, Health and safety system for Social (S) and Perception of corruption by Institutions for Governance (G).

So, the main objective of the study is to find out and analyse the competitive advantage or scope of ESG investment in India at present in comparison to other neighbour countries namely China, Pakistan, and Sri Lanka. Other neighbour countries of India like Bhutan, Nepal, Bangladesh, Afghanistan, and Myanmar are excluded from this study purposively. Here, secondary data are analysed through some charts to explore India's position in comparison to other neighbouring countries.

Global Warming Prevention: CO2 Emissions

Here, Carbon dioxide (CO₂) emission is used as a proxy variable for global warming prevention. Carbon dioxide is one of the greenhouse gases considered the main cause of global warming. Here, annual CO₂ emissions, CO₂ emissions per capita and greenhouse gas emissions per capita are considered.

Figure 1: Annual CO₂ Emissions of Four Asian Countries for last 50 Years



Source: WDI

Table 1: Environment (E) Variable - 1: Annual CO₂ Emissions

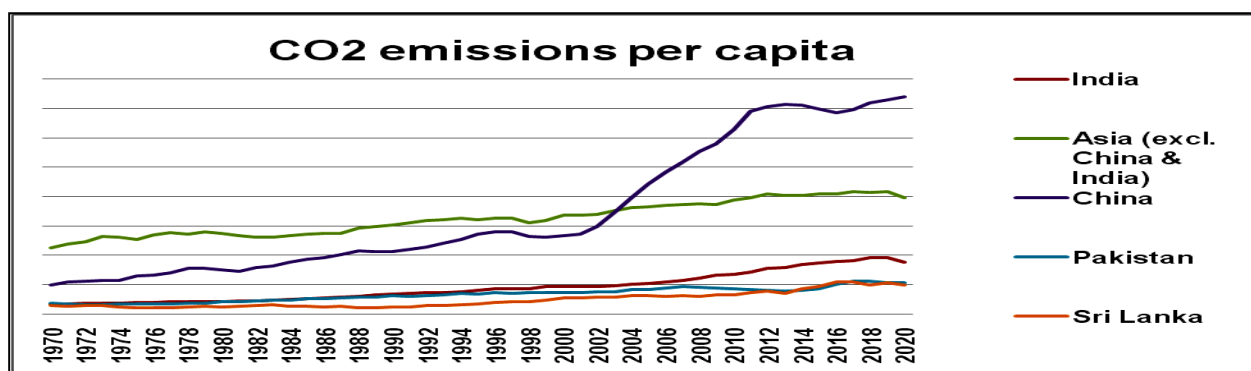
	India	China	Pakistan	Sri Lanka
Rank among four selected countries	3 rd	4 th	2 nd	1 st
Findings: As reflected in Figure - 1, India's position is better than China due to less emission. India has already been shifted to low-carbon electricity, shifted from coal to gas in the maximum way, trying to shift the transport sector to electricity with high-level battery technologies.				

Source: WDI and Global Carbon Project (2021)¹

Note: These figures included only 'production' or 'territorial' emissions and measured in tonnes.

Annual emissions of CO₂ are largely influenced by population size. So, the researcher again tried to see the per capita figures.

Figure 2: CO2 Emissions per-capita of Four Asian Countries for last 50 Years



Source: WDI and Global Carbon Project.

Table 2: Environment (E) Variable - 2: CO2 Emissions per capita

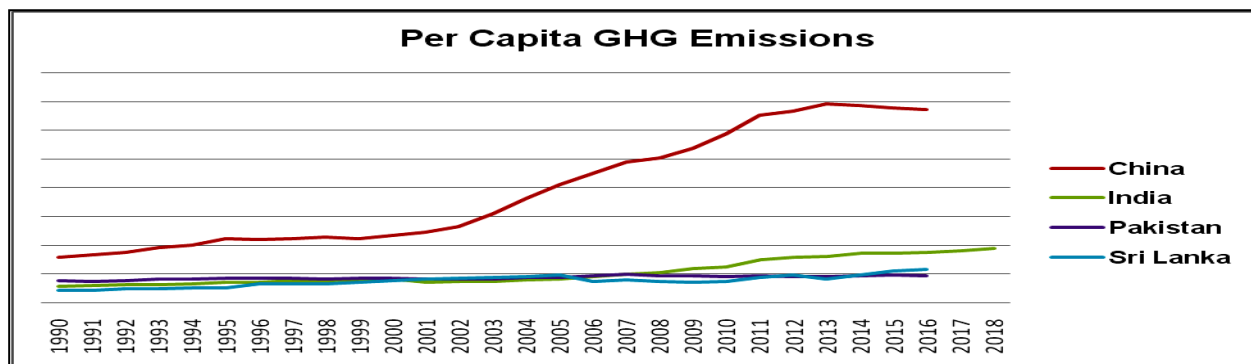
	India	China	Pakistan	Sri Lanka
Rank among four selected countries	3 rd	4 th	2 nd	1 st
Findings: As reflected in Figure 2, India's position is far better than China. China's CO2 emissions are 7.41 tonnes per person whereas India's only 1.77 tonnes per person.				

Source: WDI and Global Carbon Project (2021)²

Greenhouse Gas Emission

CO2 is not the only greenhouse gas. Other gases like methane and nitrous oxide, have also had a significant impact on global warming or climate change. The following figure shows per capita greenhouse gas emissions.

Figure 3: GHG Emissions per capita of Four Asian Countries for last 30 Years



Source: CAIT Climate Data Explorer via. Climate Watch.

Table 3: Environment (E) Variable - 3: GHG Emissions per capita

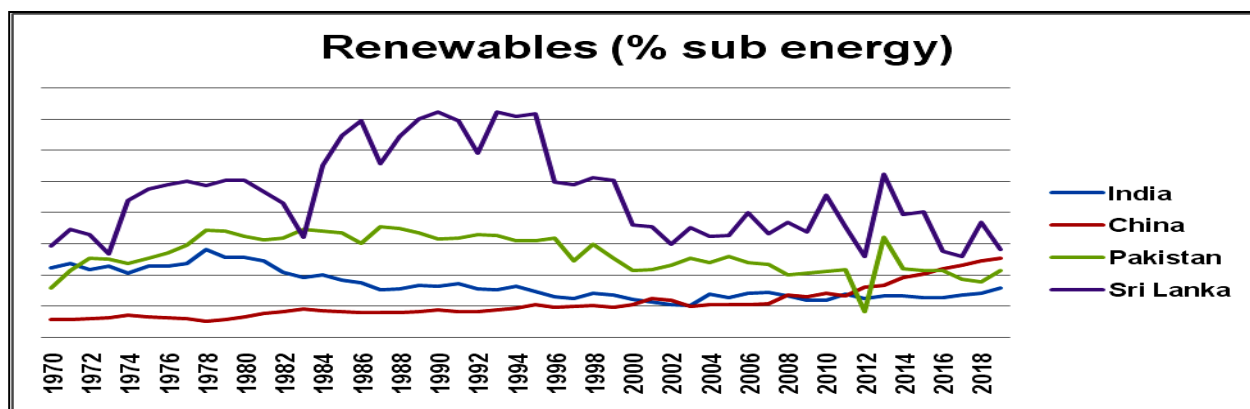
	India	China	Pakistan	Sri Lanka
Rank among four selected countries	3 rd	4 th	2 nd	1 st
Findings: As reflected in Figure 3, India's position is far better than China. China's CO2 emissions are 6.72 tonnes per person (2016) whereas India's only 1.89 tonnes per person in 2018.				

Source: CAIT Climate Data Explorer via. Climate Watch.

3. Use of Renewable Energy

Renewable energy will play a major role in the de-carbonization of energy systems of any country in the coming decades. Hydropower, solar, wind, geothermal, bioenergy, wave, and tidal energy are all examples of renewable energy sources. Traditional biofuels, which can be an important energy source, especially in low-income nations, are not included.

Figure 4: Renewable Energy of Four Asian Countries for last 50 Years



Source: BP Statistical Review of World Energy.

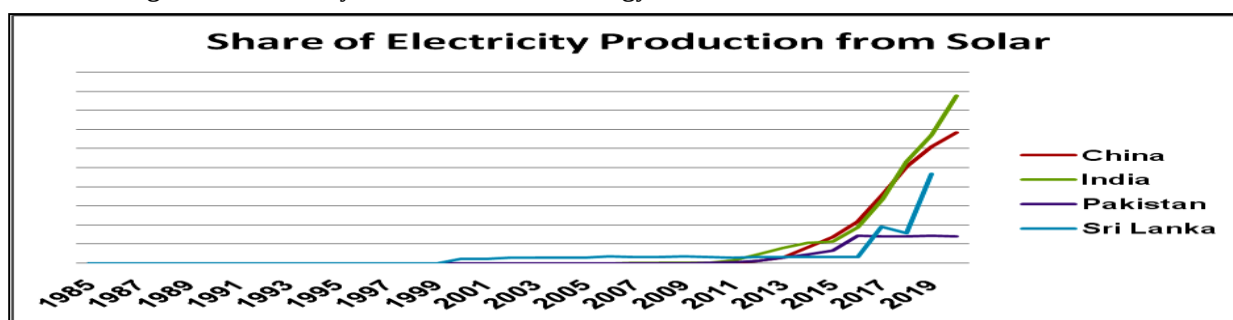
Table 4: Environment (E) Variable - 4: Share of Primary Energy from Renewable Sources

	India	China	Pakistan	Sri Lanka
Rank among four selected countries	4 th	3 rd	2 nd	1 st
Findings: As figure 4 shows that India's position is fourth in the share of primary energy consumption coming from renewable technologies. After 2015, India gradually improved in this sector.				

Source: BP Statistical Review of World Energy.

Figure - 5 shows the share of electricity that comes from renewable technologies i.e solar system.

Figure 5: Electricity comes from Solar Energy of Four Asian Countries for last 35 Years



Source: BP Statistical Review of World Energy.

Table 5: Environment (E) Variable - 5: Share of Electricity Production from Solar Sources

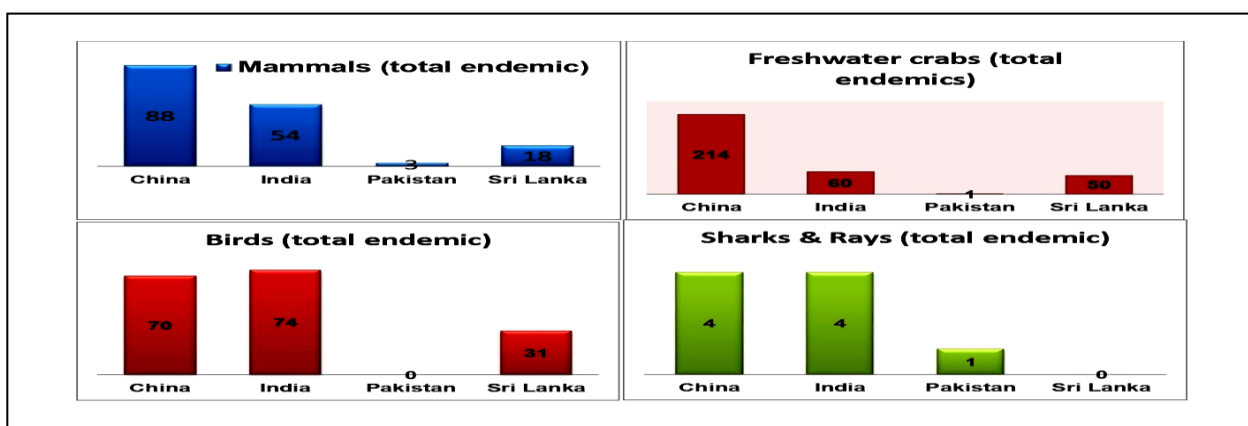
	India	China	Pakistan	Sri Lanka
Rank among four selected countries	1 st	2 nd	4 th	3 rd
Findings: As figure 5 shows that India's position is better than other countries. After 2015, India gradually improved in this sector. In 2010, India was at 0.01% which increased to 0.58% in 2015 and remarkably reached 4.38% in 2020. Globally, around one-quarter of our electricity comes from renewable.				

Source: BP Statistical Review of World Energy.

4. Conservation of Biodiversity

Biodiversity is a metric that measures genetic, species, and ecosystem variation. This is one of the important parameters of environmental sustainability. But now it is under threat. The greatest threats to wildlife exist today due to deforestation and most mammals, birds, amphibians, and reptiles are hunted and poached.

Figure 6: Comparative Chart Showing India's Position in Biodiversity



Source: IUCN Red List.

Note: Endemic species are those known to occur naturally within one country only.

Table 6: Environment (E) Variable - 6: Biodiversity (in part)

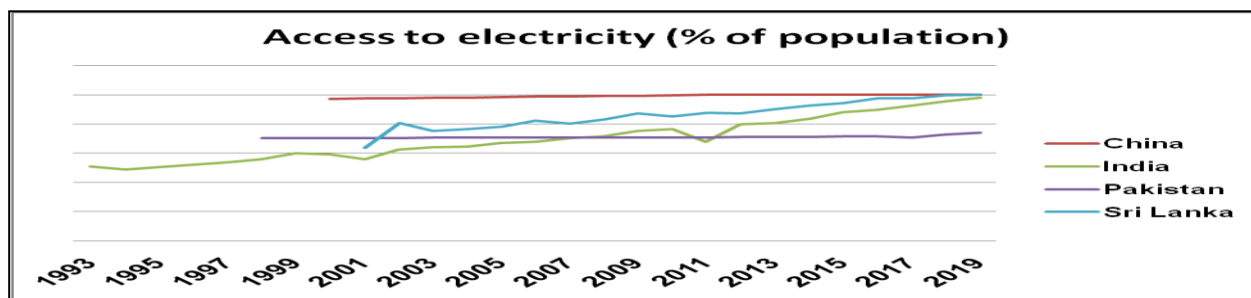
	India	China	Pakistan	Sri Lanka
Rank among four selected countries	2 nd	1 st	4 th	3 rd
Findings: As figure 6 shows that India's position is better than other countries after China.				

Source: IUCN Red List.

5. Access to electricity

Electricity, as we all know, is crucial for poverty alleviation, economic growth, and improved living standards. Electricity access is, therefore, an important social and economic parameter. Access to electricity is the percentage of the population with access to electricity.

Figure 7: Access to Electricity of Four Asian Countries for last 27 Years



Source: WDI.

Table 7: Social (S) Variable - 1: Access to Electricity

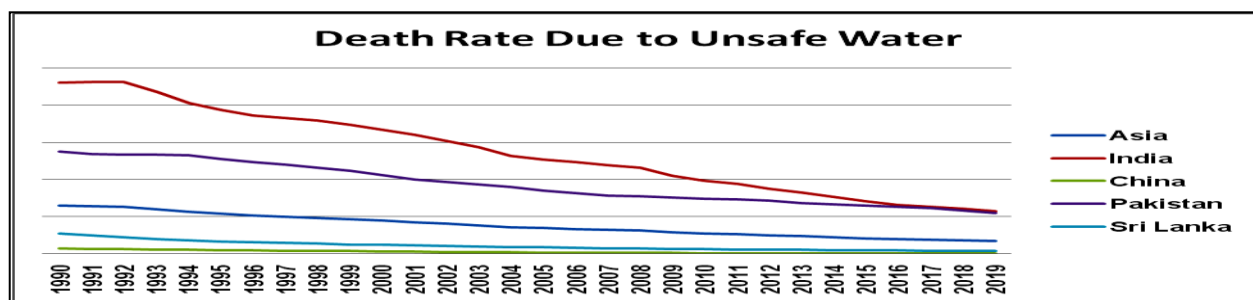
	India	China	Pakistan	Sri Lanka
Rank among four selected countries	2 nd	1 st	4 th	3 rd
Findings: As an emerging economy, India's position is better than other countries. In 2014, it was 83% which reached 98% in 2020. From the investment point of view, India is better than others.				

Source: WDI.

6. Health and Safety Systems

The issue of unsafe sanitation and unsafe water is one of the world's largest health and environmental problems specifically for underdeveloped and developing countries.

Figure 8: Death Rate due to Unsafe Water of Four Asian Countries for last 30 Years



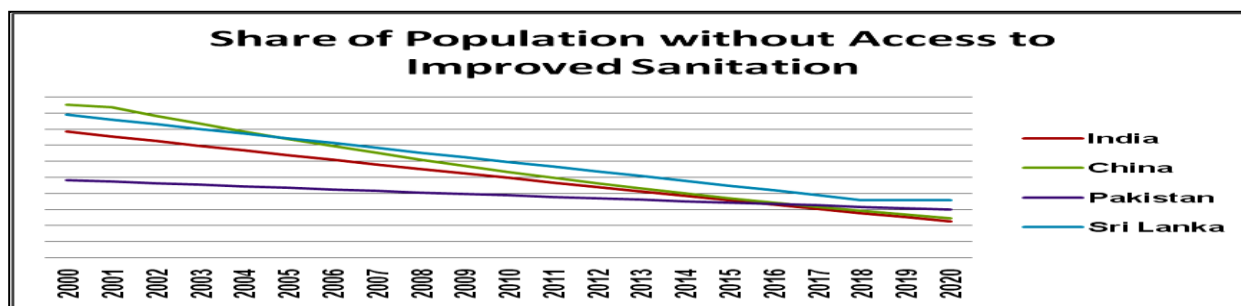
Source: IHME.

Table 8: Social (S) Variable - 2: Death Rate due to Unsafe Water

	India	China	Pakistan	Sri Lanka
Rank among four selected countries	4 th	1 st	3 rd	2 nd
Findings: Decreasing rate of the death rate due to unsafe water is higher in India than in other countries. During the period it decreased by around 8%. This is an indication of rapid social development.				

Source: IHME.

Figure 9: Share of Population without Access to Improved Sanitation of Four Asian Countries Based for last 20 Years.



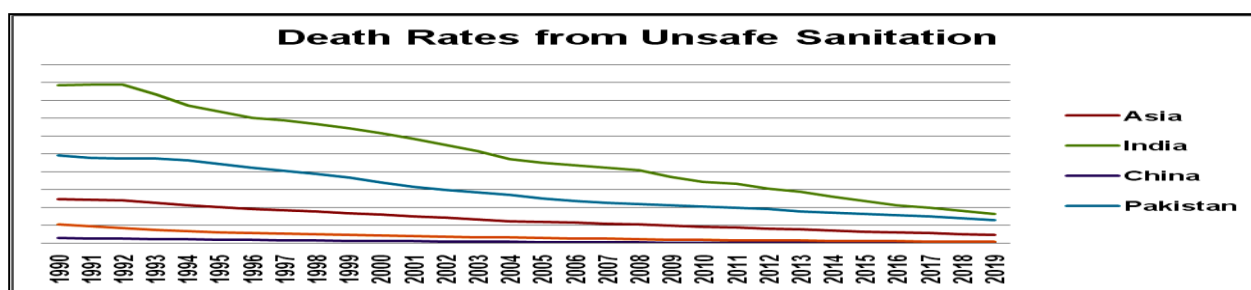
Source: WHO/UNICEF.

Table 9: Social (S) Variable - 3: Share of Population without Access to Improved Sanitation

	India	China	Pakistan	Sri Lanka
Rank among four selected countries	1 st	2 nd	3 rd	4 th
Findings: From the investment point of view, India is better than others after China. But India has been experiencing rapid development in sanitation activities.				

Source: WHO/UNICEF.

Figure 10: Death Rates from Unsafe Sanitation of Four Asian Countries for last 30 Years



Source: IHME.

Table 10: Social (S) Variable - 4: Death Rates from Unsafe Sanitation

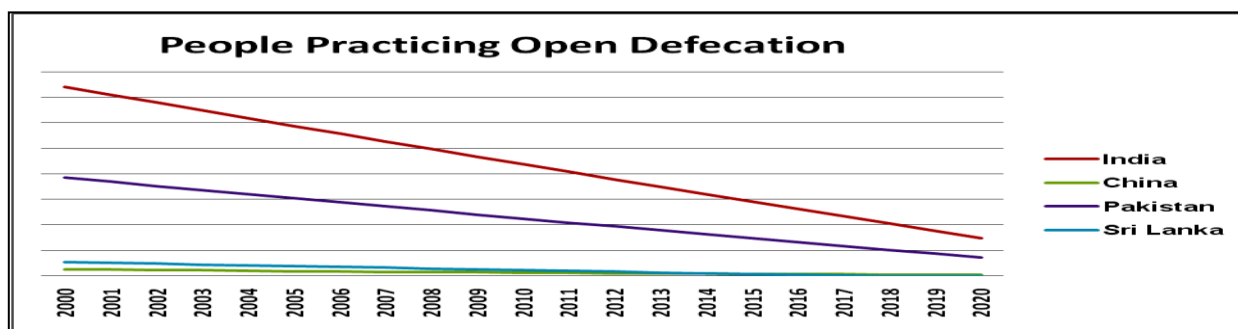
	India	China	Pakistan	Sri Lanka
Rank among four selected countries	2 nd	1 st	4 th	3 rd
Findings: From the investment point of view, India is better than others as the decreasing rate is highest for India in comparison to others.				

Source: IHME.

7. Open defecation

People practicing open defecation refers to the percentage of the population that defecates in the open, such as in fields, forests, bushes, open bodies of water, on beaches, in other open spaces, or in solid waste bins.

Figure 11: People Practicing Open Defecation of Four Asian Countries for last 20 Years.



Source: WHO/UNICEF.

Table 11: Social (S) Variable - 5: People Practicing Open Defecation

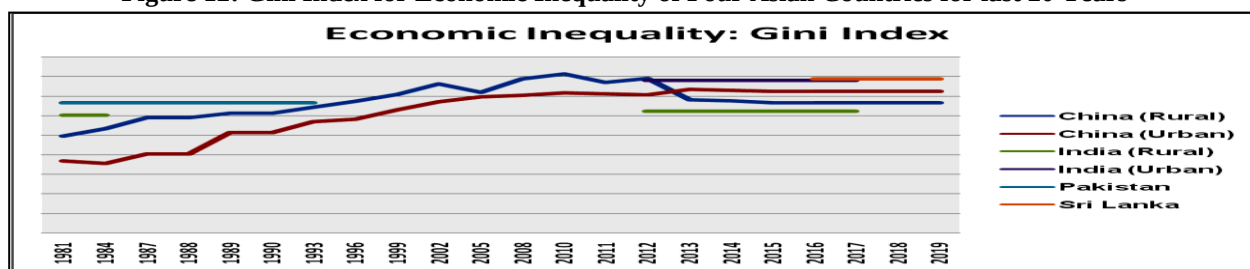
	India	China	Pakistan	Sri Lanka
Rank among four selected countries	4 th	1 st	3 rd	2 nd
Findings: Here, China is having less percentage of people from the investment point of view, India is better than others as it has been decreasing for India very fast.				

Source: WHO/UNICEF.

8. Economic inequality

Economic inequality is an important parameter of measuring social development.

Figure 12: Gini Index for Economic Inequality of Four Asian Countries for last 20 Years



Source: Our World in Data.

Table 12: Social (S) Variable - 6: Gini Index for Economic Inequality

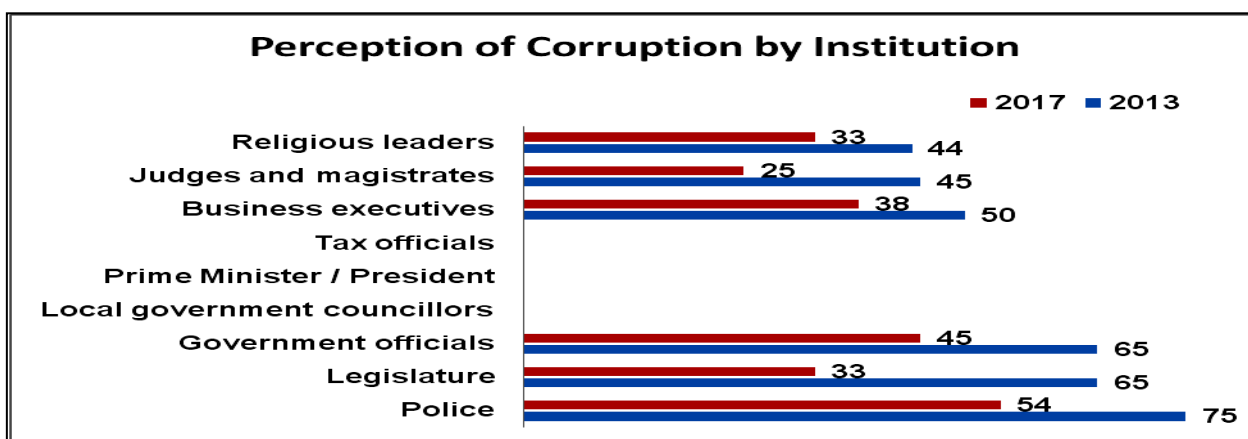
	India	China	Pakistan	Sri Lanka
Rank among four selected countries	2 nd	1 st	4 th	3 rd
Findings: A higher Gini index indicates higher inequality. Rural India is having less inequality in comparison to urban areas.				

Source: Our World in Data.

9. Corruption

Corruption may be considered as a parameter of measuring the quality of Governance.

Figure 13: Perception of Corruption by Institutions of India during the Period
from 2013 to 2017



Source: Transparency International - Global Corruption Barometer.

Table 13: Governance (G) Variable - 1: Perception of Corruption by Institutions

	India	China	Pakistan	Sri Lanka
Rank among four selected countries	2 nd	1 st	4 th	3 rd
Findings: Perception of corruption of Board executives decreased 50% to 38% during those five years. So, institutional governance has been improved.				

Source: Transparency International - Global Corruption Barometer.

Conclusion

The demand for ESG investment has been increasing in India. It may be concluded that as an emerging economy, now India is the preferable destination for ESG investment. Environmental awareness is continuously increasing in India and social development is visible. All the social parameters are favourable for ESG investments. In the case of Governance issue, it is mainly related to internal factors of any institution. Decrease of corruption is the sign of good governance and it is also visible at present in our country. The main limitation of this study is there are so many other parameters of ESG investment which are excluded from this study.

References

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Global Carbon Project. (2021). Supplemental data of global carbon budget 2021 (version 1.0). *Global Carbon Project*.