

THE SOCIAL AUDITOR



YOUR INSIGHT JOURNAL

October 2023



ICMAI Social Auditors Organisation

(A Section 8 Company promoted by The Institute of Cost Accountants of India)

Social Stock Exchange

SEBI vide its notification dated 25th July, 2022 has made amendments in the SEBI (ICDR) Regulations, 2018, and SEBI (LODR) Regulations, 2015. Copies of these amendments are being circulated with this communique. These amendments have been made to provide Social Enterprises with additional avenues to raise funds through the Social Stock Exchange (SSE), which is a novel concept in India. It provides eligibility of organizations to raise funds through Social Stock Exchange, eligibility of entities to be classified as “Not for Profit Organization”, eligibility of entities to be classified as “For Profit” Social Enterprises, means through which Social Enterprises can raise funds, and obligations of Social Enterprises. Furthermore, to strengthen the governance framework in these entities, & provide better confidence to such investors, SEBI has introduced the concept of Annual Impact Report by a Social Auditor. The purpose of this Social Audit is to ascertain the impact made by the Social Enterprise through its activities, intervention, programs or projects implemented during the reporting period. The annual impact report shall be audited by a Social Auditor.

ICMAI Social Auditors Organisation (ICMAI SAO)

To enroll & regulate the Social Auditors and also to prescribe the Social Audit Standards, the Institute of Cost Accountants of India, in compliance with SEBI Regulations, has incorporated a section 8 company titled ICMAI Social Auditors Organization. The ICMAI SAO will enroll eligible CMAs & others as Social Auditors and focus on their capacity building through continuous professional advancement with emphasis on adherence to the highest ethical standards and compliance with the Social Stock Exchange requirements.



ICMAI Social Auditors Organisation

(A Section 8 Company promoted by The Institute of Cost Accountants of India)

INDEX

GOVERNING BOARD

CHAIRMAN

CMA Ashwin G Dalwadi

NOMINEE DIRECTORS

CMA Bibhuti Bhushan Nayak

CMA Neeraj Dhananjay Joshi

CMA Rajendra Singh Bhati

CMA T C A Srinivasa Prasad

CMA K Ch A V S N Murthy

CMA Avijit Goswami

CMA A S Durga Prasad

CMA R K Gupta

Shri Harsh Jaitli

CHIEF EXECUTIVE OFFICER

CMA S K Gupta

EDITOR & PUBLISHER

CMASK Gupta

Mr. Nitin Singh Gusain

FROM THE CHAIRMAN'S DESK	1
FROM THE CEO'S DESK	2
PROFESSIONAL DEVELOPMENT PROGRAMS	3-4
ARTICLES	5
▪ Leveraging Social Entrepreneurship for creating a better world	6-9
▪ Shaping Sustainable Future: The Essential Role of Social Auditors in ESG Reporting	10-12
▪ Super Banks : Miles Away From Net Zero	13-14
OTHER READINGS	15
▪ Navigating the Next Decade	16-33
▪ Double Materiality & ESG - 10 Question Answered	34-46
▪ Highlights from the presentation on the NPO Survey Sector	47-54
PROCEDURE FOR REGISTRATION OF A MEMBER WITH ICMAI SAO	55-58
DETAILS REGARDING SOCIAL AUDITORS EXAMINATION CONDUCTED BY NISM	59
Social Auditors Certification Examination	60
Frequently Asked Questions (Social Auditors)	61-63
MULTIPLE CHOICE QUESTIONS	64-66

FROM THE CHAIRMAN'S DESK

CMA Ashwinkumar G. Dalwadi
Chairman
ICMAI Social Auditors Organisation

In recent years there has been a growing concern about the impact of development assistance, especially about the sustainability of social development programs, their effects on vulnerable groups. Social Project Monitoring is an ongoing process of systematic collection, analysis, and use of data to track a program's progress toward its goals and to assist in decision making. Processes, including when and where activities occur, who provides them, and the number of people or entities they reach, are usually the subjects of monitoring. Monitoring is useful for documenting inputs, outputs and easily captured results. If pursued systematically, monitoring permits statements about the entire project to be made later. This can be particularly relevant for projects in which a full evaluation isn't possible.

Monitoring is routine tracking and reporting of priority information about a project or program inputs, activities, output, outcomes and impacts. Keeping records and monitoring activities helps people see progress and builds a sense of achievement. Records can be useful and even essential when promoting the group or applying for funding. Monitoring begins when a project is initiated. Monitoring, tracking, reporting, and evaluation are all terms used to describe monitoring.

Monitoring can be considered to be effective when:

- Scientifically valid techniques are used.
- Aspects relevant to your project are measured.
- It's carried out regularly and consistently.
- Accurate records are kept.
- It is used as part of your evaluation to support or adjust project goals and actions.

If done right, the process of monitoring and evaluation can be beneficial for everyone involved in the program and all the stakeholders of an organization. This collected data can be analysed and used as a blueprint for strategic decision-making simultaneously as the program is panning out or after its execution.

FROM THE CEO'S DESK

CMA (Dr.) S K Gupta
Chief Executive Officer
ICMAI Social Auditors Organisation

UNDP estimates that India needs USD 1 trillion per year to meet the UN Sustainable Development Goals by 2030, and has a funding gap of USD 560 billion per year. As the Government alone may not be able to mobilise resources on this scale, it may look to enlist the support of the private sector and High Net Worth Individuals (HNI). Social enterprises, development sector organizations, not-for-profits, NGOs and civil society organisations (CSOs) aim to bring about a positive change in society. However, their efforts to convert intent into impact are often constrained by a lack of capital, as well as by lack of sustained access to this capital. The social stock exchange (SSE) is the answer?

Social stock exchanges (SSEs) provide a platform for investors to support social businesses and impact investing, revolutionising the traditional concept of stock markets. SSEs allow ethical investors to invest in businesses aligned with their values, creating a parallel social economy. SSEs are a unique and novel mechanism for socially conscious enterprises and non-profits to access an alternative funding mechanism that is reliable and subject to public scrutiny. In India particularly, an SSE could go a long way towards inculcating professionalism, objectivity and a culture of tracking, measuring, documenting, and reporting the social impact they are creating. The transparency and the opportunity to impact social change at scale is a clear win-win for all stakeholders in the ecosystem.

Social stock exchanges are slowly getting much-needed attention in recent times with onboarding of so many organisations. The exchanges, which were launched by the BSE and the National Stock Exchange (NSE) early this year, have been able to rope in big names such as SGBS Unnati Foundation, Routes to Roots, Ketto, Ekalavya Foundation, Pragati Gramodhyog Evam Samaj Kalyaan Sansthaan, Swami Vivekanand Youth Movement, Udhavum Ullangal Public Charitable Trust, Raintree Foundation etc. In all, currently the BSE-SSE has 32 entities and NSE-SSE 31. The SSE idea was first proposed by Finance Minister Nirmala Sitharaman in her July 2019 Budget. Since then, market regulator SEBI, along with the leading bourses, has been trying to give a shape to the novel proposal.



PROFESSIONAL DEVELOPMENT PROGRAMS



ICMAI Social Auditors Organisation
(A Section 8 Company promoted by The Institute of Cost Accountants of India)

PROFESSIONAL DEVELOPMENT PROGRAMS

OCTOBER 2023

Date	Name of Program
07th-08th October 2023	12th Online Batch Preparatory Course for Social Auditors Examination
12th-13th October 2023	Certificate Course - ESG (Perspective, Process, Practice)

Articles



Leveraging Social Entrepreneurship for creating a better world

Dr. S K Gupta

Chief Executive Officer

ICMAI Social Auditors Organisation

The Perspective

Whenever society is stuck or has an opportunity to seize a new opportunity, it needs an entrepreneur to see the opportunity and then to turn that vision into a realistic idea and then a reality and then, indeed, the new pattern all across society. We need such entrepreneurial leadership at least as much in education and human rights as we do in communications and hotels. This is the work of social entrepreneurs.

Who is a Social Entrepreneur ?

A social entrepreneur is a person who pursues novel applications that have the potential to solve community-based problems. These individuals are willing to take on the risk and effort to create positive changes in society through their initiatives. Social entrepreneurs may believe that this practice is a way to connect you to your life's purpose, help others find theirs, and make a difference in the world (all while eking out a living).

Social entrepreneurs cannot be defined in a single sentence. They are changing the world in different ways every day. If we look around, we'll find several examples of social entrepreneurship that have affected monumental change. Social entrepreneurs are individuals that who apply a business logic in a novel and entrepreneurial way to improve the lives of those in need and incapable of changing their situation. Entrepreneurs used to be enterprising, savvy founders who started businesses for one reason: to make money. But times have changed — and with the emergence of something known as social entrepreneurship, several founders' motivations have shifted from profit margins to social responsibility

What is Social Entrepreneurship ?

The phrase 'social entrepreneurship' refers to a brand of entrepreneurship rooted in funding or implementing solutions to cultural, social, or environmental problems. The term is something of a catch-all that covers virtually any type of private organization that uses business as a means to socially conscious ends.

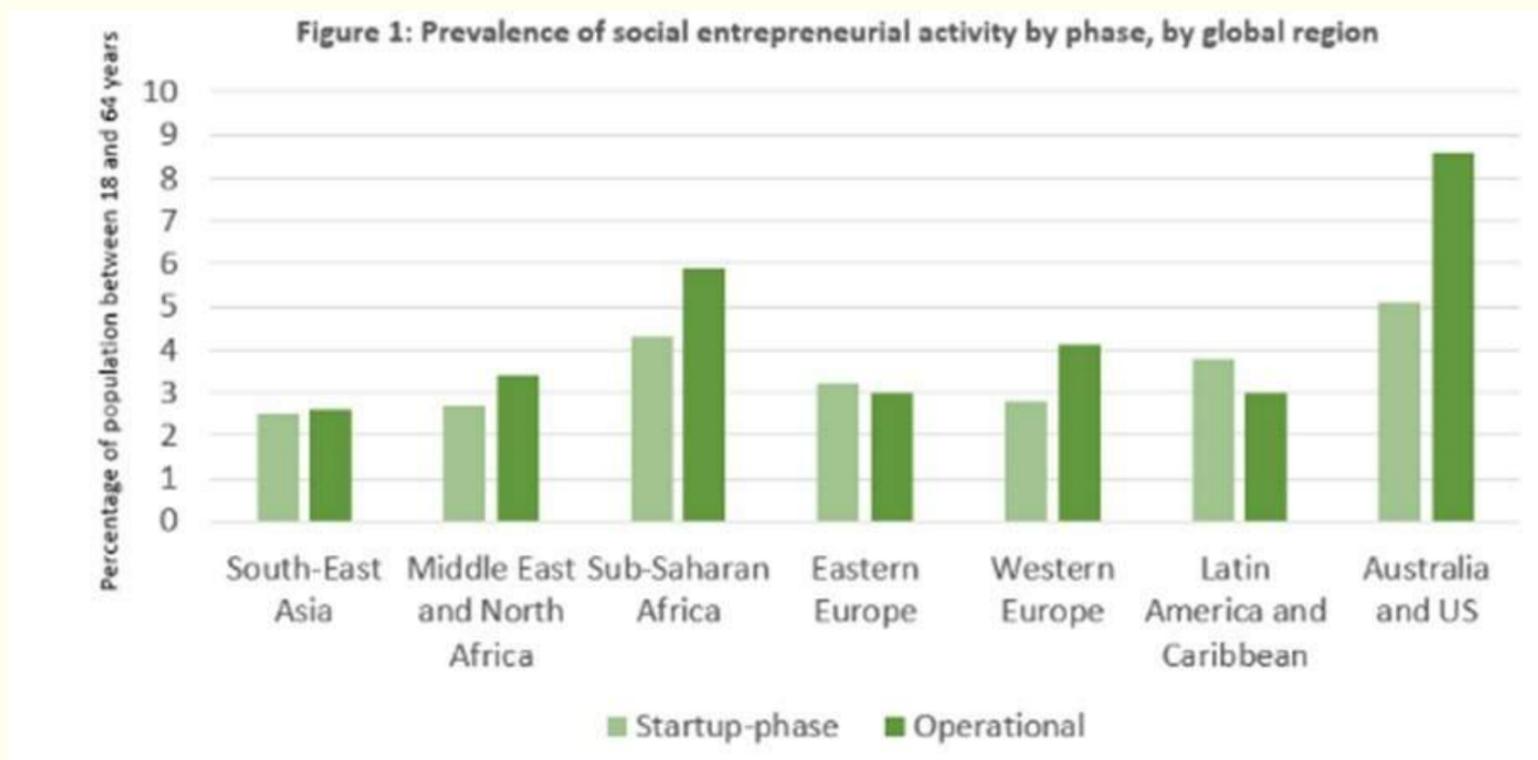
Social entrepreneurship is the process through which specific types of actors – the “social entrepreneurs” – create and develop organisations that may be either social enterprises or other types of organisations. It also designates a field including a broad set of initiatives with a social impact dimension in a spectrum ranging from for-profit to non-profits.



Social entrepreneurship flourishes when a holistic policy ecosystem is in place – an appropriate regulatory framework, means to ensure a better access to market and finance and opportunities for skills development notably through business support structures. Social entrepreneurship is a business model used by companies to help solve some of the world's greatest problems.

Where the traditional model has largely focused on the generation of profit, social entrepreneurs focus on bringing about positive social and environmental change, while also generating a profit. Social entrepreneurship is really about developing business opportunities that have positive impact. It's using your business as a force for good, looking at the company's role in this world and the ways the business can influence positive change.

Social entrepreneurship is an approach to business that's gaining popularity as globalization brings conversations about sustainability and international development to a world stage. It's also leading more people to ask themselves, "What can I do for the world today?" The reasons behind the popularity of social entrepreneurship are many. On the most basic level, there's something inherently interesting and appealing about entrepreneurs and the stories of why and how they do what they do. People are attracted to social entrepreneurs like last year's Nobel Peace Prize laureate Muhammad Yunus for many of the same reasons that they find business entrepreneurs like Steve Jobs so compelling – these extraordinary people come up with brilliant ideas and against all the odds succeed at creating new products and services that dramatically improve people's lives.



But interest in social entrepreneurship transcends the phenomenon of popularity and fascination with people. Social entrepreneurship signals the imperative to drive social change, and it is that potential payoff, with its lasting, transformational benefit to society, that sets the field and its practitioners apart.

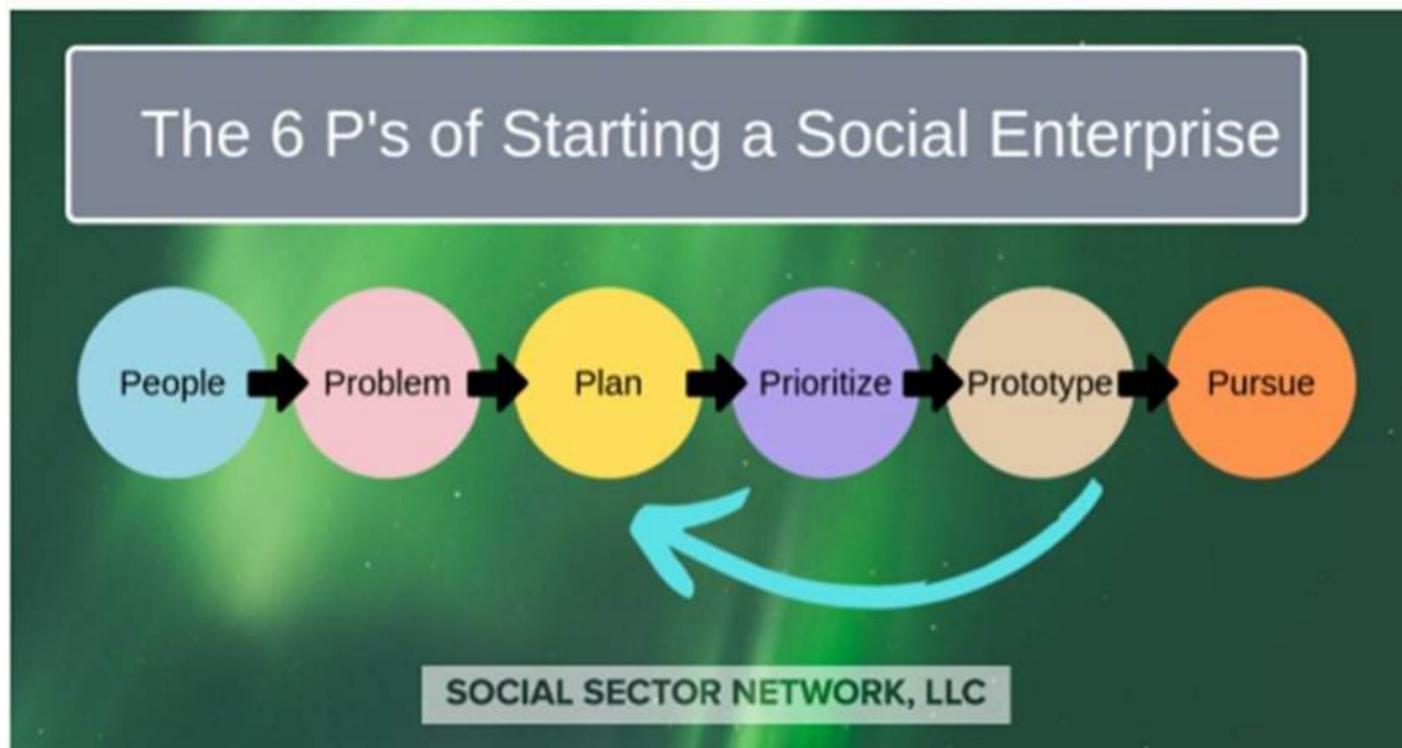
Social entrepreneurship is an approach by individuals, groups, start-up companies or entrepreneurs, in which they develop, fund and implement solutions to social, cultural, or environmental issues. Broadly speaking, social entrepreneurship is a new, innovative business venture that influences change. A social entrepreneur has a specific cause that they care about, and they develop a business model around making a positive impact. The main goal is to create lasting social change through business.

What's a social enterprise?

A social enterprise is a type of business where the bottom line and success metrics are measured in more than just profits. Instead, social enterprises typically measure success based on a triple bottom line:

- **People.** The human impact of your business, and your ability to affect social change, improve lives, and develops a community in a sustainable way.
- **Planet.** Your environmental impact—how you contribute to a sustainable planet or reduce the carbon footprint (CO2 emissions) of your business and customers.
- **Profit.** Like traditional businesses, social enterprises need to make money in order to sustain themselves, pay workers, and grow as an enterprise.

Social enterprises can operate as a non-profit, for-profit, or hybrid business (also known as a social enterprise), depending on the business model that you prefer and the availability of funding. Social entrepreneurship is related to socially responsible investing (SRI) and environmental, social, and governance (ESG) investing. SRI is the practice of investing money in companies and funds that have positive social impacts. SRI has also grown in popularity in recent years.



As social entrepreneurs embark on turning their ideas into successes, they often work through the following six areas. Each of these categories are different resources, roadblocks, or stages a social entrepreneur must often encounter.

- **People** : Most social entrepreneurs start their endeavours by identifying what people they want to benefit. Sometimes, this is the people in their specific geographical region. Other times, this is people within a certain demographic (i.e. people with low income)
- **Problem** : Social entrepreneurs try to fix problems. More specifically, social entrepreneurs identify a problem that the people in the previous section face. Usually, during the brainstorm phase of an entity, the social entrepreneur will link the two together.
- **Plan** : With the people and problem identified, a social entrepreneur must devise a plan to solve the problem. Social entrepreneurs not only strive to create a business plan to operate an entity, they must also determine how this type of entity will receive funding and remain financially sustainable
- **Prioritize** : One of the largest challenges for a social entrepreneur is a lack of available resources to tackle the problem they wish to solve. Whether that means not enough money, not enough specialized knowledge, or external forces that cannot be controlled, social entrepreneurs face many constraints. This means they must prioritize what they try to solve, how they go about operating, and what expansion looks like.
- **Prototype** : Because resources are limited, social entrepreneurs often test out solutions in small markets before expanding. This means creating prototype products, services, or processes
- **Pursue** : With the test case down, social entrepreneurs identify what went well and what didn't go well. It often surveys those that helped put the solution together as well as those receiving the benefit. This last step closes the full loop of activity, though a social entrepreneur should periodically evaluate each aspect and continually monitor for ways to better make their social change.
-

What are the types of social entrepreneurship?

Social entrepreneurship takes many forms :

Non-profit : A tax-exempt, non-business entity that invests excess funds back into the mission.

Co-operative : A business organized by and for its members.

Social purpose business : These businesses start on the foundation of addressing a social mission.

Social firm : Social firms employ those in the community who need jobs.

Socially responsible business : These companies support social missions as a part of their day-to-day business operations.

For-profit : Perhaps the vaguest category, these businesses are profit-first but donate funds, raise awareness, or otherwise support causes.

The role of social entrepreneurship in sustainable development

The overall goal of social entrepreneurship is to facilitate sustainable development. Whether the company's focus is on improving access to employment of disenfranchised individuals or reducing their carbon footprint, the focus on improved social outcomes targets sustainable development for communities. A lot of companies are already doing this and are actually working toward certain sustainable development goals without even realizing it. There are companies that are making decisions to reduce their environmental impact and others working along the lines of poverty reduction because they feel it's the right thing to do.

What's the difference between social entrepreneurs and other entrepreneurs?

Social entrepreneurs differ from conventional entrepreneurs in the goals they hope to achieve. While traditional entrepreneurs typically focus on the creation of commercial value or profits, social entrepreneurs work to create social value—where society or the community benefits. However, with the rise of environmental, social and governance (ESG) criteria in finance and management, businesses of all kinds are increasingly being asked to consider their impact on society and the environment. As such, the difference between social entrepreneurs and other entrepreneurs has been diminishing.

Key success factors of Social ventures

An exploratory qualitative field study identifies various key factors that influence the success of social entrepreneurial ventures:

- entrepreneurs' social network
- total dedication to the venture's success
- capital base available at the establishment stage
- acceptance of the venture idea in the public discourse
- composition of the venturing team, including the ratio of volunteers to salaried employees
- forming long-term co -operations in the public and non-profit sectors
- ability of the venture to stand the market test
- entrepreneurs' previous managerial experience

References

- Saebi, T., Foss, N. J., & Linder, S. (2019). Social entrepreneurship research: Past achievements and future promises. *Journal of Management*, 45(1), 70-95.
- Sharir, M., & Lerner, M. (2006). Gauging the success of social ventures initiated by individual social entrepreneurs. *Journal of World Business*, 41(1), 6-20.
- Zahra, S. A., & Wright, M. (2016). Understanding the social role of entrepreneurship. *Journal of Management Studies*, 53(4), 610-629.

Shaping Sustainable Future: The Essential Role of Social Auditors in ESG Reporting

CMA Arunabha Saha

Cost Accountant , Social Auditor

Abstract :

Environmental, Social, and Governance (ESG) factors have become central to investment decisions as investors increasingly prioritise sustainability and ethical considerations. In this evolving landscape, the role of Social Auditors (SAs) has gained significance. SA plays a pivotal role in ESG reporting which ensure that investments are used appropriately, verifying compliance with Social Audit Standards by providing in-depth analysis of an organisation's social and ethical performance. These standards are aligned to the Sustainable Development Goals (SDG).

Introduction :

ESG reporting is mandatory for the top 1,000 listed companies in India, they are required to disclose as per the Business Responsibility and Sustainability Report (BRSR) formats. Disclosures are framed based on well-accepted global sustainability frameworks and standards, such as the Global Reporting Initiative (GRI), Sustainability Accounting Standards Board (SASB), Task Force on Climate-related Financial Disclosures (TCFD) etc. Sooner or later, most of the companies will be required to disclose their ESG practices transparently and comprehensively, which includes providing data on social issues such as labour practices, human rights, diversity and inclusion, and community engagement. This is where social auditors come into play.

In this era where sustainability is no longer a buzzword but a fundamental driver of responsible business practices, the role of SAs has become more critical. Worldwide the organisations are realising the importance of integrating ESG principles into their operations to secure a sustainable future. This article delves into the essential role that SAs play in shaping these sustainable futures by ensuring that ESG reporting aligns with the highest ethical and responsible standards.

Correlating a SA with ESG factors involves recognising the important role of SA in assessing and verifying a company's environmental, social and ethical performance, which is a critical component of ESG reporting.

Role of Social Auditors in ESG reporting:

By virtue of inherent competency on ESG, SA have a multifaceted role in ESG reporting and investment decisions. SAs provide recommendations for enhancing a company's ESG performance. These suggestions guide investors in understanding the company's commitment to continuous improvement in social responsibility. Some of them has been mentioned as below:

- **Integration of Social Audit into ESG Framework :** ESG and social audits contribute to the broader ESG reporting framework. Sustainability is the overarching goal of ESG, and social audit is one of its judgmental tools. By assessing and addressing social issues, organisations become more sustainable within the ESG context. ESG reporting incorporates information from social audits to provide a holistic view of an organisation's social and environmental performance. This integration ensures that the organisation's commitment to social responsibility is aligned with its broader sustainability efforts. **Assessment and Verification :** SAs evaluate a company's ESG initiatives, policies, and practices to ensure they align with SDG. They verify the accuracy of
- ESG reporting and disclosures to prevent greenwashing – the practice of exaggerating or misrepresenting ESG efforts. The role of a SA is to independently assess and verify the ESG report to ensure that it accurately represents the organisation's ESG performance. This verification process enhances the credibility and trustworthiness of the ESG report, which is vital for building stakeholder confidence and making informed investment and business decisions. **Identifying the Environmental Issues :** The social audit helps in identifying the environmental issues concerning the organisation and the risks associated there with, ascertaining adequacy of policies, procedures and control mechanism on

- ESG perimeters, and efficacy of communication between management, employees, suppliers, consumers and other stakeholders. By identifying environmental issues in ESG through a social audit, organisations can take meaningful steps to address and improve their environmental practices. This not only helps mitigate environmental risks but also contributes to a more sustainable and responsible approach to business operations. **Assessing Social Metrics** : SAs appraise an organisation's social performance by
- examining its policies, practices, and outcomes in areas like labour practices, employee well-being, and community impact. Assessing social metrics within the ESG context, a SA helps organisations enhance their transparency, accountability, and responsible business practices. It also helps organisations to track, measure, and improve their social performance, ensuring that they meet their social responsibility goals and align with broader ESG objectives. This contributes to their broader sustainability goals and helps build trust with stakeholders. **ESG Metrics and Reporting** : SAs also help companies to define and measure key ESG performance indicators. They also
 - assist in the preparation of ESG reports that adhere to recognised frameworks, such as GRI, SASB, TCFD etc. ESG metrics and reporting by a SA involves a thorough evaluation of an organisation's sustainability and responsibility practices, focusing on the metrics that reflect its performance in these areas. ESG metrics and reporting validation by a SA is a critical process that ensures the accuracy and credibility of an organisation's ESG reporting.
 - **Ethical Alignment** : Ethical investors are drawn to companies that prioritise ethical and social responsibility. SAs verify that a company's actions align with its stated values. Ethical alignment focuses on ensuring that a company's ESG activities are in line with ethical principles, values, and societal expectations. Auditing ethical alignment in ESG reporting by a SA is essential for evaluating the organisation's adherence to ethical principles and values within the context of ESG principles.
 - **Stakeholder Engagement** : SAs facilitate communication and collaboration between the company and its stakeholders, including employees, communities, customers, and investors. They ensure how much a company is responsive to stakeholder concerns and feedback. Auditing stakeholder engagement in ESG reporting by a SA is essential for evaluating the organisation's commitment to engaging with and addressing the concerns and expectations of its stakeholders.
 - **Environmental Impact** : SAs frame a comprehensive examination of an organisation's environmental practices, policies, and impacts of its environmental activities. SA assesses how an organisation's environmental initiatives affect the well-being of communities.
 - **Risk Mitigation** : By identifying and addressing ESG risks, SA helps companies proactively manage potential challenges. This can include assessing the social and ethical implications of supply chain practices, labour conditions and environmental impacts. SA helps in providing assurance that a company's ESG reporting practices are sound and reducing the perceived risk.
 - **Long-Term Sustainability** : Companies that embrace ESG principles are often better positioned for long-term growth and resilience. SAs contribute to the confidence of investors in a company's sustainability efforts. Auditing long-term sustainability within the context of an ESG report by a SA involves a comprehensive examination of an organisation's efforts to ensure that its operations remain viable, responsible, and ethical over the long term.
 - **Facilitating Informed Investment Decisions** : ESG-focused investors rely on the assessments provided by SA to make informed investment decisions. Organisations that provide detailed ESG disclosure reports, more likely to attract investments from sustainability-minded investors, further incentivising sustainable practices. SAs meticulously verify the accuracy and completeness of data in ESG reports, ensuring that the information used for investment analysis is reliable and trustworthy.

The correlation between ESG reporting audited by SAs and sustainable business success is evident. Businesses that embrace responsible social practices and undergo rigorous audits are better positioned for long-term sustainability. As sustainability becomes not just a choice but a necessity, the collaboration between ESG reporting and social audit paves the way for a more sustainable, ethical, and successful business landscape.

Correlation between ESG Reporting - Audited by Social Auditor and Sustainable Business Practices:



Incorporating ESG criteria, in collaboration with social audit support, is a transformative practice in the world of investment. It enables investors to consider a company's social responsibility, ethical standing, and long-term sustainability alongside traditional financial metrics. This approach not only mitigates risks and enhances the recognition of investment opportunities but also ensures that investments align with ethical values and sustainability objectives. The partnership between ESG and Social Audit is instrumental in shaping a more responsible, ethical, and sustainable investment landscape. It facilitates informed investment decisions that prioritised not only financial returns but also social and environmental well-being.

“Sustainable development is a fundamental break that is going to reshuffle the entire deck. There are companies today that are going to dominate in the future simply because they understand that.” - Francois-Henri Pinault.

References :

<https://hbr.org> – Harvard Business Review

<https://www.undp.org> - United Nations Development Programme

<https://www.techtarget.com>

Super Banks : Miles Away From Net Zero

Mr. Hargovind Sachdev

Independent Director , ExGM, State Bank of India

" Good banking is produced not by good laws but by good bankers."

Banks are society's most powerful game changers, investing in renewable energy projects, offering green loans, and financing eco-friendly initiatives. However, implementing sustainable supply chain practices to divest high environmental impacts like fossil fuels is still a far cry. **Banks are slow in adopting sustainable and environmentally friendly practices, a movement often called "green banking". Their profit orientation keeps them away from De-carbonising loans and becoming a Net-Zero.**

The race for booking profits has shifted banks' focus from environment to enrichment. The top four global offending banks are in the United States. Along with **JPMorgan Chase** and **Citibank**, the underperformers are **Wells Fargo** and **Bank of America**. Citibank is the biggest funder of 100 critical companies with ambitious fuel expansion plans. Wells Fargo is the world's biggest funder of the gas industry, and Bank of America has the highest LNG financing. **Barclays** is propping up polluting coal plants despite adopting the Paris Agreement in 2015, having lent \$17.7 billion to coal plants.

Ironically, most Super Banks have high-profile net-zero climate commitments. They are signatories of the **Net Zero Banking Alliance (NZBA)**, a **United Nations Environment Programme** designed to unwind the financial sector from fossil fuels. But there are glaring loopholes in promises, commitments and deliverables.

In North America, **RBC Canada's** giant Bank lent \$42.5 billion to fossil fuel projects, with \$4.8 billion to support tar sand operations and \$7.4 billion for fracking. It is the top funder of tar sands oil extraction. **Barclay's** is the largest financier of fossil fuels in Europe, and **Bank of China** is the worst in China.

The Indian scenario is also similar. Most Indian Banks are missing the bushes for a plant. While climate disruption and weather extremes have hit a new high, not a single Indian bank has undertaken climate-related scenario analysis to gauge the resilience of loan assets. **SBI has recently floated an RFP to assess the carbon footprint of its loan portfolio.** The results will be available after many years.

State Bank of India and **HDFC** have the highest exposure to carbon-intensive sectors, with SBI's exposure dominated by coal. While **Yes Bank, HDFC Bank, and Axis Bank** have emerged as the top three performers in climate-risk preparedness, **IndusInd Bank** has slipped since the last assessment. Eight Indian banks have started disclosing Scope 3 emissions, an indirect result of the Bank's activities in addition to Scope 1 and 2. Yes Bank, measures financed emissions, but only for the electricity sector. **YES Bank is the only one to explicitly identify climate risk as a Pillar 2 under its Internal Capital Adequacy Adequacy Assessment Process (ICAAP).**

Only 8% of the Indian Public Sector bank loans are in the renewable energy sector. Only ten banks have disclosed Green Finance activities despite RBI's concerns that the climate crisis could pose a systemic risk to the Indian economy.

General Purpose Corporate financing is one of the most misused banking products that significantly diverts from Net Zero. Banks defend their record on climate, citing that they will not directly finance the construction of a new coal project financing. However, they freely invest in the parent companies building those coal plants through general-purpose loans or corporate loans that are not project-specific. **From 2016 to 2022, 96% of the financing that went to the fossil fuel industry was general-purpose corporate financing.** The product is a significant loophole that the banks routinely exploit to avoid meeting net-zero climate commitments.

Besides directly financing fossil fuel companies, Super Banks help companies raise money by issuing bonds and equities. Most bank financing for fossil fuel expansion comes from underwriting bonds and equities that help fossil fuel companies raise capital for profit and business development. Since the Paris Agreement was adopted, the six biggest US banks—JPMorgan Chase, Citi, Bank of America, Wells Fargo, Morgan Stanley, and Goldman Sachs—underwrote \$266 billion worth of bonds and equities for 30 top fossil fuel companies.

Super banks have yet to opt to go green. There needs to be more concern about energy and water efficiency and waste reduction to adopt green banking practices. Banks must launch Innovative green products and carbon-offsetting products to cancel the climate-changing effects of greenhouse gas emissions. Banks must support high-impact industries such as forestry, mining, oil and gas, fisheries, and infrastructure. In project finance, banks can act as environmental policemen to comply with ecological and ESG standards.

Green banking incurs additional costs for banks. Through a positive relationship between green banking strategy and profitability, there is evidence that environmentally responsible banks are financially successful and grow similarly to conventional competitors.

ESG-compliant banking promotes green initiatives and the economy, where the environmental benefits of reduced carbon dependency are the most significant. The scope, coverage, and advantages of green banking are long-term.

By properly using commercial lending muscle, super banks can catalyse the necessary transition to an economy that minimises greenhouse gas pollution and drives energy efficiency through Green Banking.

Rightly said, "By polluting the oceans, not mitigating CO2 emissions and destroying our biodiversity, we are killing our planet. Let us face it: there is no planet B."

OTHER READINGS



ICMAI Social Auditors Organisation

(A Section 8 Company promoted by The Institute of Cost Accountants of India)

Navigating the Next Decade

10 Demand Signals for the Next 10 Years of Sustainable Finance



A Letter from Chief Sustainability Officer and CEO of the Institute for Sustainable Investing

Over the past decade, sustainability has fundamentally reshaped the investment landscape with environmental and social issues now integral to capital allocation decisions.

Morgan Stanley has been at the forefront of this structural trend, with the Firm’s CEO and Chairman James Gorman announcing the establishment of the Institute for Sustainable Investing back in 2013. The goal was to accelerate the adoption of sustainable finance by supporting innovative ideas, empowering investors with industry-leading insights and investing in the next generation of sustainable finance leaders.

While we are proud of what we have accomplished to date, we are also keenly aware that the next ten years will be critical. By 2030, the world will have passed many significant milestones for the well-being of the planet and society. The Sustainable Development Goals (SDGs), the Paris Agreement’s climate commitments, the Global Biodiversity Framework’s 30 by 30 goals and many countries’ and companies’ interim net-zero targets will all come due.

At that time, we will need to answer for what we have accomplished and what remains unfinished.

And it will not be an easy pathway to achieving the goals. Scientists agree that we are not on track to limit warming to 1.5°C whilst social inequalities, both within and between countries, remain evident for all to see. It will take cross-sector collaboration and finance at scale to develop transformative solutions that ensure a prosperous global economy and a more sustainable world for people and all life on Earth.

As the Institute has done since 2013, we will continue to help investors and corporates navigate the complex terrain of sustainable finance over the next decade. To that end, I’m excited to share our views on ten essential demand signals to watch over the next ten years.

Jessica Alsford

JESSICA ALSFORD

Chief Sustainability Officer and
CEO of the Morgan Stanley Institute
for Sustainable Investing



SUMMARY

- 1 Demand for New Sustainable Investment Options >
- 2 Demand for More Specific and Reliable ESG Data >
- 3 Demand for Land for Decarbonization Efforts >
- 4 Demand for Metals and Minerals to Power the Energy Transition >
- 5 Demand for Proof and Scale of New Technology Solutions >
- 6 Demand for Voluntary Carbon Offsets >
- 7 Demand for Definitions and Progress Across Social Themes >
- 8 Demand for Nature-Positive Investments and Financing >
- 9 Demand for Sustainable Supply Chains >
- 10 Demand for Qualified Talent >

The Last Ten Years: Setting the Stage

The past ten years have seen growing interest in sustainable finance and investing. The concept has moved from early momentum prior to 2015 to increasingly formalized mechanisms for identifying and measuring both impact and risk. The next decade will determine the future role of sustainability in the world of finance and in society at large.



PRE-2015

Early Momentum

Demand and supply for sustainable finance solutions begin emerging.

- The Principles for Responsible Investment (PRI) launch in 2006 to promote sustainable investment.
- The first green bond is issued by the World Bank in 2008.
- The United Nations Conference of the Parties (COP) 15 in Copenhagen in 2009 fails to end with an agreement on global climate goals.
- Morgan Stanley’s Institute for Sustainable Investing is established in 2013 to help accelerate the adoption and growth of sustainable finance and drive capital toward investments promoting sustainable economic growth.



2015–2017

Emerging Frameworks

Key events in 2015 raise global awareness of sustainability issues and the need to finance solutions.

- COP 21 ends with the landmark Paris Agreement, setting goals to guide all nations to substantially reduce global greenhouse gas emissions to limit the global temperature rise to 2°C above pre-industrial levels.
- The United Nations Sustainable Development Goals (SDGs) are established to meet the urgent environmental, social and economic challenges facing the world.
- Financial standards bodies work to standardize disclosures and guidance, notably the Task Force on Climate-Related Financial Disclosures (TCFD), founded by the Financial Stability Board (FSB) in 2015.
- The number of specialist sustainability data providers proliferates, changing the landscape for data availability.



2018–2020

Rapid Growth

Sustainable investing grows rapidly with new fund launches.

- Assets under management (AUM) in sustainable funds around the world double between Dec. 2017 and Dec. 2020 to ~ \$1.6 trillion, with record monthly inflows reaching ~30% of starting AUM.¹
- PRI signatories grow by more than 75%, reaching over 3,000 by the end of 2020.
- Corporates step up to make decarbonization commitments while in 2020 the EU approves its Green Deal to make the region carbon neutral by 2050.
- The global COVID-19 pandemic and social justice movements put a spotlight on issues including worker health and safety, and diversity, equity and inclusion.



2019–2023

Increased Scrutiny

Regulators begin to establish clearer sustainability disclosure requirements.

- The EU leads the way with regulations including the Sustainable Finance Disclosure Regulation and Corporate Sustainability Reporting Directive.
- Terms such as “green washing” grow in prominence with a heightened focus on the authenticity of sustainability claims.



2023–2033

From Ambition to Real-World Impact

The ability to achieve tangible outcomes and the level of investor demand will define the next decade of sustainable finance. The following ten demand signals indicate how these factors are progressing.

¹ Morgan Stanley Research, “ESG Monthly Market Trends: Record Inflows for ETFs” (March 1, 2021)

01 Demand for New Sustainable Investment Options

With growing interest in sustainable investing, especially among younger generations, new investment opportunities and instruments across asset classes and themes are likely to proliferate to meet diverse demand.

Transfer of Wealth Boosts Sustainable Investing

In the first half of 2023, investor demand for sustainable equity and fixed income funds hit record highs with sustainable AUM reaching 7.9% of the global total.² Currently, Europe drives much of the demand and investor interest, with 21% of European AUM classified as ‘sustainable,’ according to Morningstar. In North America, ‘sustainable’ funds comprised just 1.3% of regional AUM, while in Asia it is just 1.5%.

However, growing interest among younger generations—99% of surveyed U.S. Millennials in 2021 indicated they were interested in sustainable investing³—will likely drive

global growth in the coming decade. If sustainable AUM reached 15% of total AUM outside Europe, total global sustainable AUM would double to over \$5 trillion (Figure 1).

“Wealth transition to Millennials will increasingly redefine the investment industry, and we expect to see growing demand for sustainable investing opportunities,” says Emily Thomas, Head of Investing with Impact, Morgan Stanley Wealth Management. “Financial advisors and investment managers, increasingly part of the Millennial generation as well, will continue to drive this growth as more clients demand sustainable investing options.”

FIGURE 1

Sustainable AUM continued to grow as a proportion of total AUM in 1H2023, reaching record levels



Source: Morgan Stanley Institute for Sustainable Investing analysis of Morningstar data.

² Data as of June 30, 2023

³ Morgan Stanley Institute for Sustainable Investing, Sustainable Signals: Individual Investors and the COVID-19 Pandemic (October 27, 2021)

01 Demand for New Sustainable Investment Options

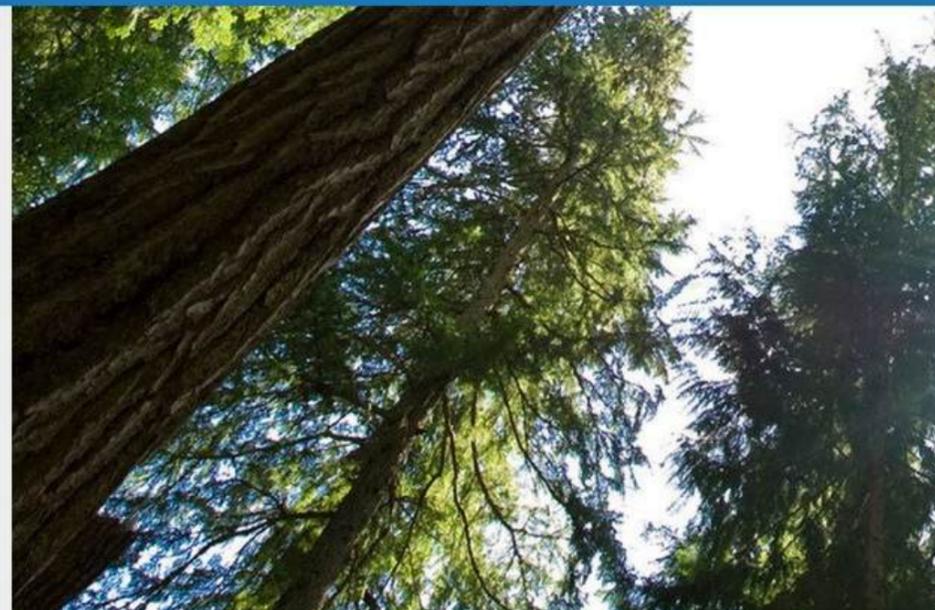
Shift in Focus to Private Markets

At the same time, the next decade will likely also see a proliferation of sustainable options across more asset classes, especially in the private markets. According to Morgan Stanley Investment Management, there are both “push and pull factors” that will help drive the evolution of sustainability as part of the investment process in private markets. Growing scrutiny from regulators will “push” investors towards sustainability, while the “pull factor” will come from clients looking for greater transparency around their investments and more influence with their capital.

“Climate investing will be especially compelling for private equity investors in the years ahead,” says Vikram Raju, Head of Morgan Stanley Investment Management’s Climate Impact Team. “Not only does it represent an area of key growth, with 62% of younger generations in the U.S. preferring to buy from sustainable brands, but efficient use of energy, inputs and materials directly impact the bottom-line. Traditional companies are also driven to diversify into new areas, making acquisitions of sustainability-oriented companies more promising.”

“Climate investing will be especially compelling for private equity investors in the years ahead. Not only does it represent an area of key growth, with 62% of younger generations in the U.S. preferring to buy from sustainable brands, but efficient use of energy, inputs and materials directly impact bottom-line.”

VIKRAM RAJU
Head of Morgan Stanley Investment Management’s Climate Impact Team



⁴ Morgan Stanley Investment Management, Push and Pull Factors Drive the Evolution of Sustainable Investing in Private Markets (January 26, 2023)

02 Demand for More Specific and Reliable ESG Data

Accurate and reliable data are critical to support ESG-related claims and inform decisions around environmental, climate and social risk. Advancing technologies and regulation would further drive data supply and demand.

New Regulations Increase Data Collection and Disclosure

Organizations will need to navigate an increasingly complex terrain of regulations and policy directives. Regulators worldwide seek standardization and disclosure to drive the transition to a more sustainable global economy.

For example, starting in 2024, the EU’s Corporate Sustainability Reporting Directive (CSRD) will mandate more than 50,000 public and private companies disclose on ESG factors, including more than 10,000 non-EU headquartered companies around the world (Figure 2). Companies will be required to conduct a double materiality assessment to disclose matters that are significant for both the business (financial materiality) and the environment or broader society (impact materiality).

“With these more robust disclosure rules coming online, particularly in Europe, investors and other stakeholders will have access to more specific data in the public domain,” says Jamie Martin, Head of the European Sustainability Office at Morgan Stanley. “In the coming decade, it will be interesting to see how this information will allow investors to better evaluate a company’s sustainability performance, including revenues, corporate practices and supply chain. Such transparency could have wide-ranging impacts on companies, fund flows, data providers, rating agencies and index providers.”

Rapidly Advancing Technologies Help Fill Data Gaps

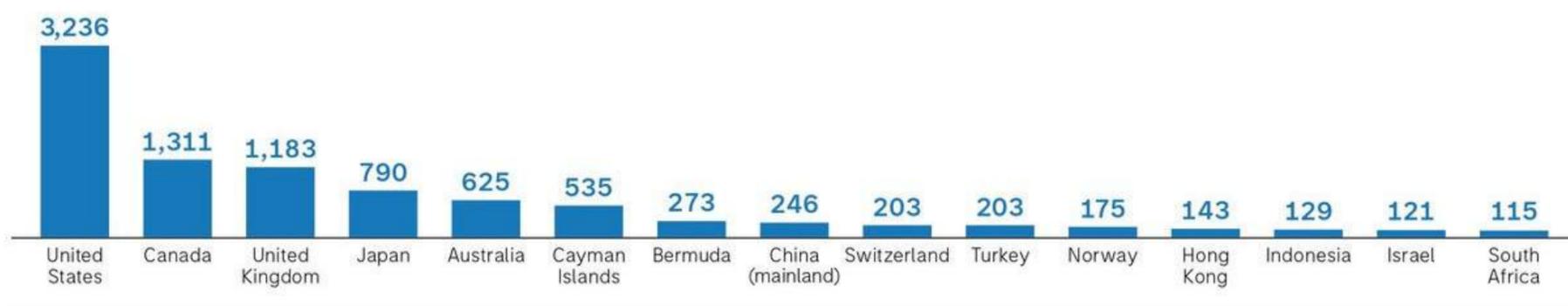
The integration of artificial intelligence (AI)⁵ could create a turning point in meeting investors’ demand for specific and reliable ESG data. Predictive modeling could analyze historical ESG data, industry trends, revenue breakdown and types of products and services to better forecast a company’s future ESG performance. Natural-language processing tools might allow investors to analyze thousands of sources daily to help identify companies with controversial ESG practices that may be undisclosed but potentially material for investment decision-making.

Beyond AI, new satellite technologies could determine companies’ exposure to physical risks or allow assessments of natural capital and ecosystem services impacts. These solutions could quickly and accurately analyze many inputs beyond what companies disclose to detect patterns and inform investor decisions.

“ESG data is still in its infancy. Many of the complaints we hear about ESG data from the market are the lack of transparency or the time lag, which are likely to improve significantly over the coming years either from better and faster disclosures or improved modeling techniques and other technologies which could be applied to the space,” says Andrew Ford, Head of Sustainable Insights Lab at Morgan Stanley.

FIGURE 2

Estimated non-EU headquartered companies required to disclose on ESG factors to align with new CSRD rules



Source: Refinitiv

⁵ Morgan Stanley Institute for Sustainable Investing, How AI Can Bolster Sustainable Investing (July 31, 2023)

03 Demand for Land for Decarbonization Efforts

The competition for land is poised to surge. In addition to demand from agriculture, housing and industrial development, the net-zero transition will create new needs, from renewable energy to nature conservation efforts.

Decarbonization Efforts Require Lots of Land

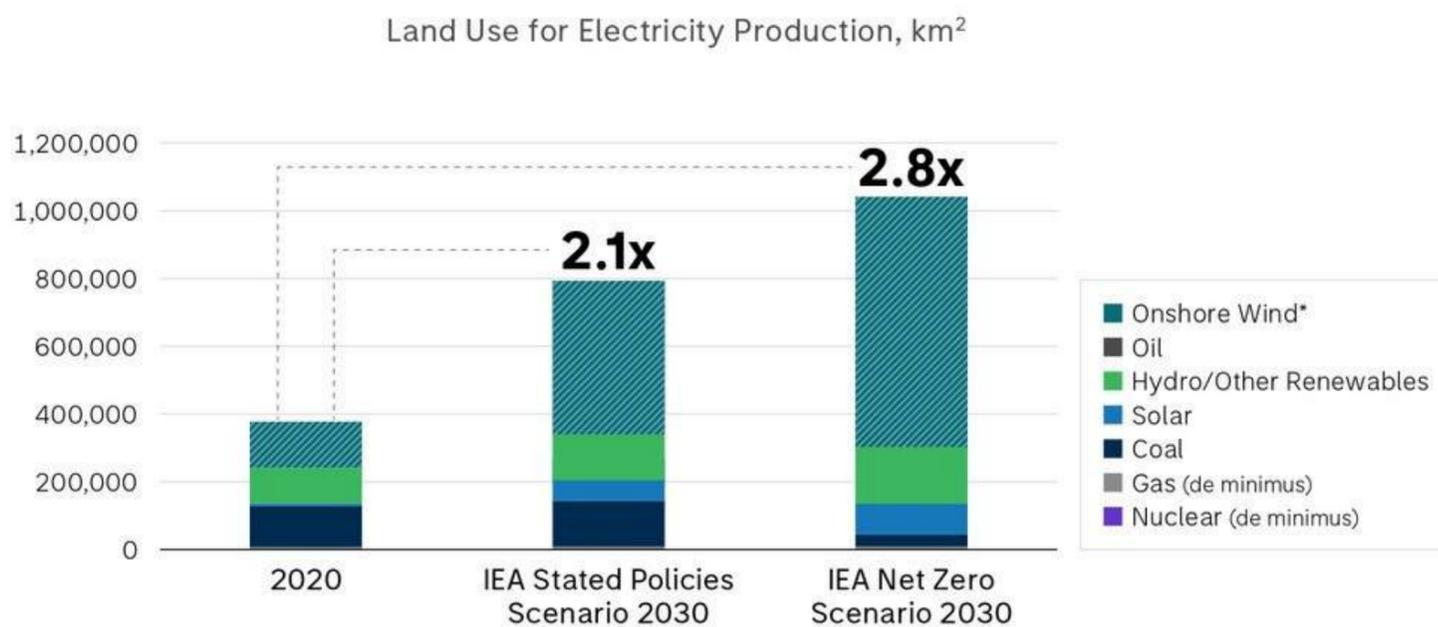
Transitioning to renewable energy sources such as wind and solar can require large land areas for installation. Hydro and some types of solar power can demand up to twice the land needed for coal power and as much as 30x the land needed for gas power.⁶ Using the International Energy Agency’s (IEA) Stated Policies and Net Zero scenarios, as well as some broad assumptions on land use by energy type, we estimate that the area used for electricity production globally could increase between 2.1x and 2.8x the 2020 levels by 2030 (Figure 3). Most of this increase comes from onshore wind, which can co-exist with other activities, but there could still be significant tension with existing land uses.

Another demand for land comes from reforestation and afforestation projects that are central to carbon credit markets. Oxfam estimates that offsetting carbon emissions via tree planting alone could require more than 15% of the world’s habitable land.⁷ With nearly half of the world’s habitable land used for agriculture today, there is a risk that increasing the amount of land dedicated to carbon-absorbing vegetation will present new challenges for food production globally.⁸

>15% of the world’s inhabited land could be needed for tree planting to offset carbon emissions.

FIGURE 3

Land use for electricity production could change significantly in the coming years



Source: Our World In Data, International Energy Agency, Morgan Stanley Institute Institute for Sustainable Investing.

* Onshore wind is not an exclusive land use, as it can be combined with other uses like agriculture.

⁶ Our World in Data, [How Does the Land Use of Different Electricity Sources Compare?](#), Hannah Ritchie (June 16, 2022). The article considers land use throughout the life cycle of the power source, so from raw material extraction to manufacturing, in-use phase and end of life.

⁷ Oxfam Policy & Practice, [Tightening the Net: Net Zero Climate Targets - Implications for Land and Food Equity](#) (March 8, 2021)

⁸ Our World in Data, [How Does the Land Use of Different Electricity Sources Compare?](#), Hannah Ritchie (June 16, 2022)

03 Demand for Land for Decarbonization Efforts

Strong Environmental and Social Risk Management Will Be Needed

As competition for land grows, increased investments in sustainable land use efforts, including reforestation and afforestation, landscape restoration and biodiversity protection, will be needed to ensure long-term climate-positive outcomes.

Similarly, companies and investors will likely expect renewed environmental and social risk policies to ensure a balance between the land demand needed for climate mitigation and other sustainability issues and the risks such claims present to biodiversity and local communities.

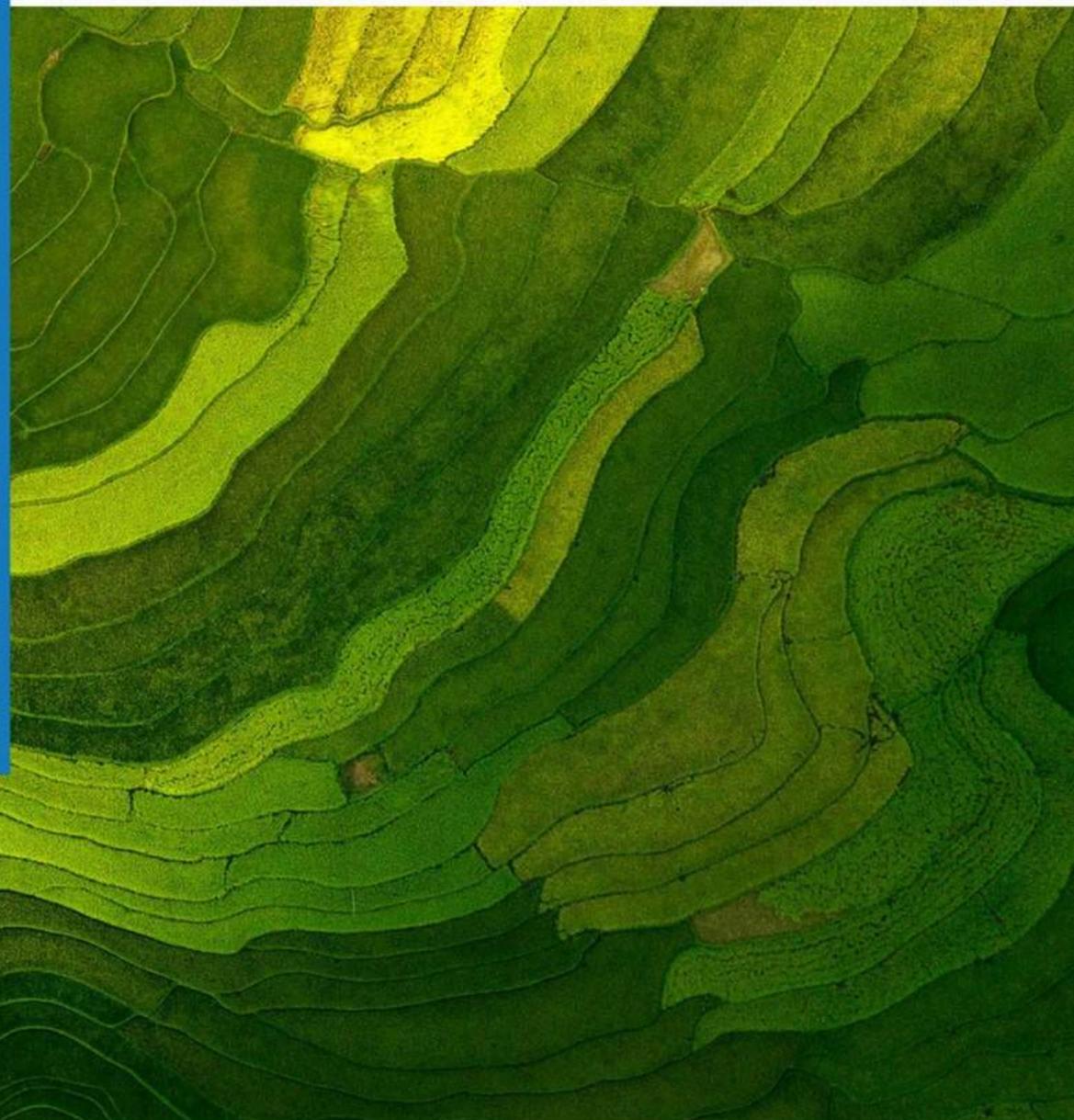
The Nature Conservancy estimates that industrial development from rising demand for food, renewable energy, minerals and infrastructure could threaten over 60% of Indigenous Peoples’ lands, or roughly 22.7 million square kilometers—an area nearly seven times the size of India.⁹ However, assessing such risks is challenging due to limited data and methodologies.

“It is important that risk screening and due diligence processes prioritize impacts to ecologically sensitive areas and vulnerable communities, including Indigenous Peoples,” says Aaron Rosenberg, Head of Environmental and Social Risk Management at Morgan Stanley. “With growing importance in managing the risks land use presents to nature and society, we expect strong community engagement and more localized data to help.”

“It is important that risk screening and due diligence processes prioritize impacts to ecologically sensitive areas and vulnerable communities, including Indigenous Peoples. “With growing importance in managing the risks land use presents to nature and society, we expect strong community engagement and more localized data to help.”

AARON ROSENBERG

Head of Environmental and Social Risk Management at Morgan Stanley



⁹ The Nature Conservancy, Amid Industrial Development Threats to Lands, Major Opportunities to Support Indigenous Stewardship (August 8, 2023)

04 Demand for Metals and Minerals to Power the Energy Transition

Decarbonization efforts could see demand for critical minerals rise sixfold. The wide range of environmental and geopolitical implications may be challenging to manage.

The transition to a low-carbon economy will put the metals and mining sector to the test with copper, lithium, nickel, manganese, cobalt, graphite, zinc and rare earth minerals becoming some of the most sought-after raw materials on the planet.

An onshore wind plant, for example, requires nearly nine times more mineral inputs than a gas-fired plant.¹⁰ A typical electric vehicle (EV) requires almost six times more mineral inputs than a conventional car. As a result, EVs will become the largest consumer of lithium and take over stainless steel as the largest end-user of nickel by 2040.¹¹ Resource extraction and supply chain projects may have broad geopolitical and economic repercussions.

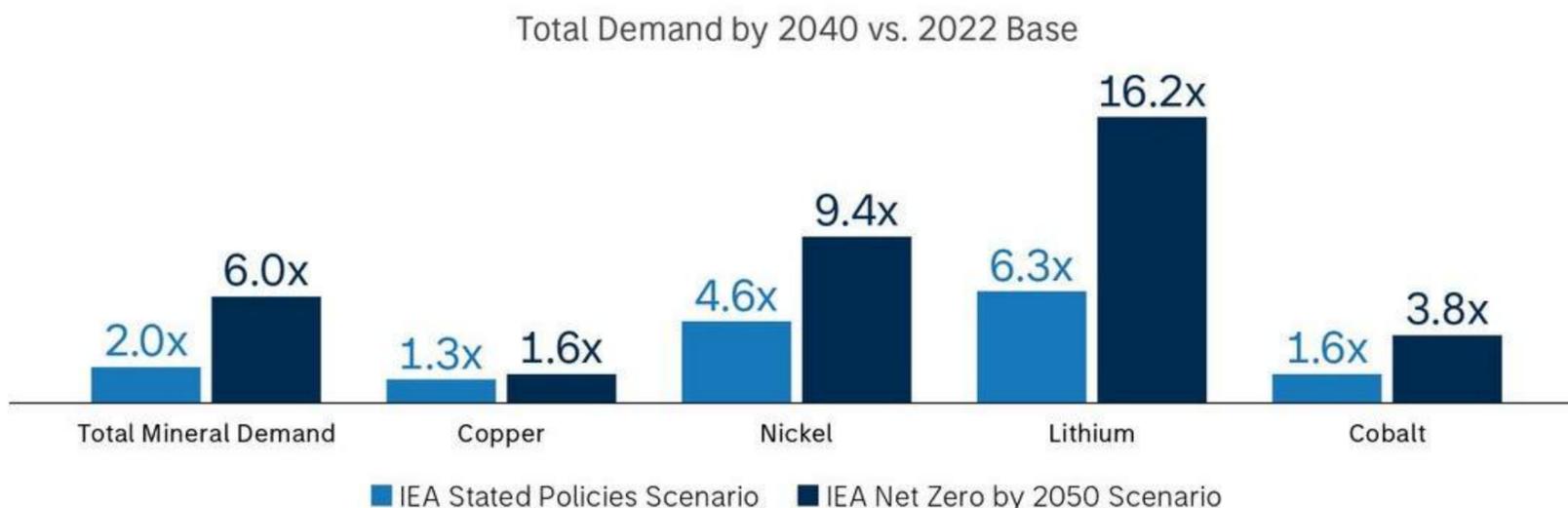
According to the International Energy Agency (IEA), the demand for minerals used in clean energy technologies will increase between two and six times by 2040, depending on how the path to decarbonization plays out.¹² The range of potential demand growth is even broader for some individual commodities, notably lithium and nickel (Figure 4).

Meeting this demand in a responsible and timely manner presents new challenges for the metals and mining sector. There will be a battle for access to the limited sources of key commodities, and the range of potential demand outcomes will be difficult to navigate. Rapid demand growth from the energy transition could lead to a shortage of key mineral and metals unless investments in mining exploration and outputs are increased. The Energy Transitions Commission (ETC) estimates \$70 billion is needed a year through 2030 to expand supply, yet annual capital investments averaged just \$45 billion over the last two decades.¹³

“The growing demand for mineral and metal inputs will provide important economic opportunities for resource-rich countries and companies alike, but challenges will emerge if the climate-driven energy transition is not managed responsibly and sustainably,” says Sean Wright, Head of Climate Transition at Morgan Stanley. “As investments increase and industries like automotive manufacturing continue transitioning, appropriate environmental and social standards will be needed to limit the negative impact on the physical environment and local communities.”

FIGURE 4

Clean energy growth should drive increased demand for critical minerals regardless of the potential demand scenario



Source: IEA, Morgan Stanley Institute for Sustainable Investing

¹⁰ IEA, The Role of Critical Minerals in Clean Energy Transitions

¹¹ IEA, The Role of Critical Minerals in Clean Energy Transitions

¹² IEA, The Role of Critical Minerals in Clean Energy Transitions. Delta is between the IEA’s 2040 projections in its Stated Policies Scenario and Net Zero by 2050 Scenario.

¹³ Energy Transitions Commission, Material and Resource Requirements for the Energy Transition (July 20, 2023)

05 Demand for Proof and Scale of New Technology Solutions

The International Energy Agency (IEA) forecasts that to cut emissions and meet global net-zero targets, more than one-third of the reductions need to come from innovative technologies.¹⁴ However, many of these technological solutions are in preliminary stages. They are not ready for the market today, are too expensive to manufacture or are unproven at scale. The coming decade may change this.

Can the “Green Shoots” Finally Grow?

Carbon capture, utilization and storage technology (CCUS) has yet to live up to its promise despite the long-standing recognition of its crucial role in reaching climate goals. But momentum has grown significantly in recent years. Carbon-intensive sectors are eager to reduce hard-to-abate emissions, while new government subsidies make investments more attractive. The IEA estimates that there are currently over 500 projects in development, compared to 40 in operation as of 2023.¹⁵

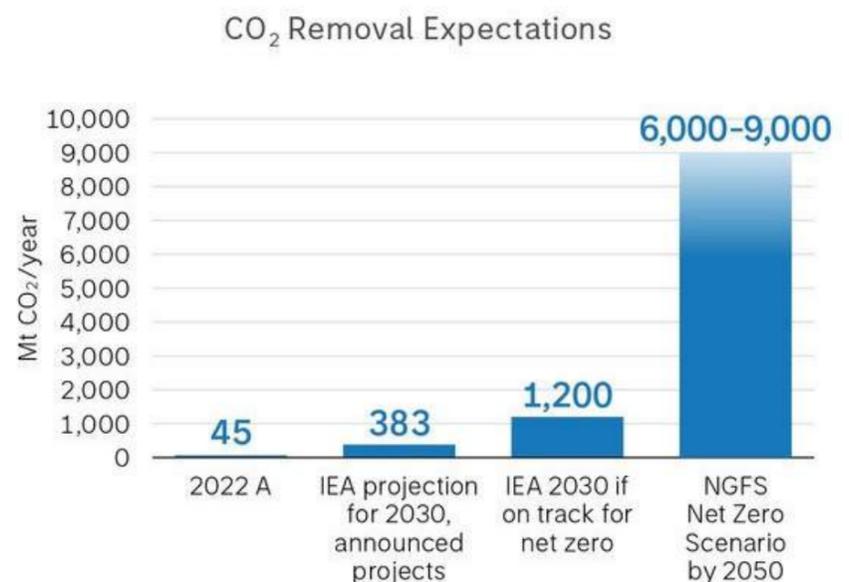
But, even with this progress, the estimated capacity of these commitments will not achieve net-zero requirements. Announced projects, if delivered, would remove 383 metric tons per year (t/yr) by 2030,¹⁶ compared to at least 6,000 t/yr needed by 2050, according to Network for Greening the Financial System (NGFS) net-zero scenarios.¹⁷ More investments in expanding and scaling CCUS technologies are needed in the next ten years if these target removal rates are to be achieved (Figure 5).

Similarly, there is still a lack of sufficient investments in hydrogen technology. Hydrogen has significant potential for helping to decarbonize heavy industry and transport and enable domestic energy production. Since 2019, more than 34 countries have formulated national hydrogen strategies,¹⁸ with more than 680 announced large-scale hydrogen projects.¹⁹ However, while the U.S.²⁰ and EU²¹ have committed funding towards hydrogen development, a significant investment gap of roughly \$460 billion remains.²²

For these “Green Shoots” to grow to sufficient levels in the next decade, cost curves will need to keep falling. Better access to qualified talent and improved permitting processes and access to raw materials will also be required. In many cases, both “carrots” and “sticks” would need to be in place to enact faster and broader adoption. The U.S. Inflation Reduction Act (IRA) is one prominent example, where tax credit expansions and enhancements are creating a market for carbon capture and incentivizing a broad array of investors and developers.²³

FIGURE 5

Carbon capture projects are still growing but cannot meet net-zero requirements



Source: IEA, NGFS, Morgan Stanley Institute for Sustainable Investing

¹⁴ International Energy Agency, The path to limiting global warming to 1.5 °C has narrowed, but clean energy growth is keeping it open (September 26, 2023)

¹⁵ IEA, Carbon Capture, Utilisation and Storage

¹⁶ IEA, Carbon Capture, Utilisation and Storage

¹⁷ NGFS, Scenarios Portal

¹⁸ RMI, Reality Check: Green Hydrogen Can Scale This Decade (October 11, 2022)

¹⁹ McKinsey Sustainability, Five Charts on Hydrogen’s Role in a Net-Zero Future (October 25, 2022)

²⁰ Energy.gov, DOE Announces \$52.5 Million to Accelerate Progress in Clean Hydrogen (July 7, 2021)

²¹ CNBC, EU Approves Up to \$5.2 Billion in Public Funding for Hydrogen Projects (September 21, 2022)

²² McKinsey Sustainability, Five Charts on Hydrogen’s Role in a Net-Zero Future (October 25, 2022)

²³ Morgan Stanley Research, Earthshots (November 30, 2022)

05 Demand for Proof and Scale of New Technology Solutions

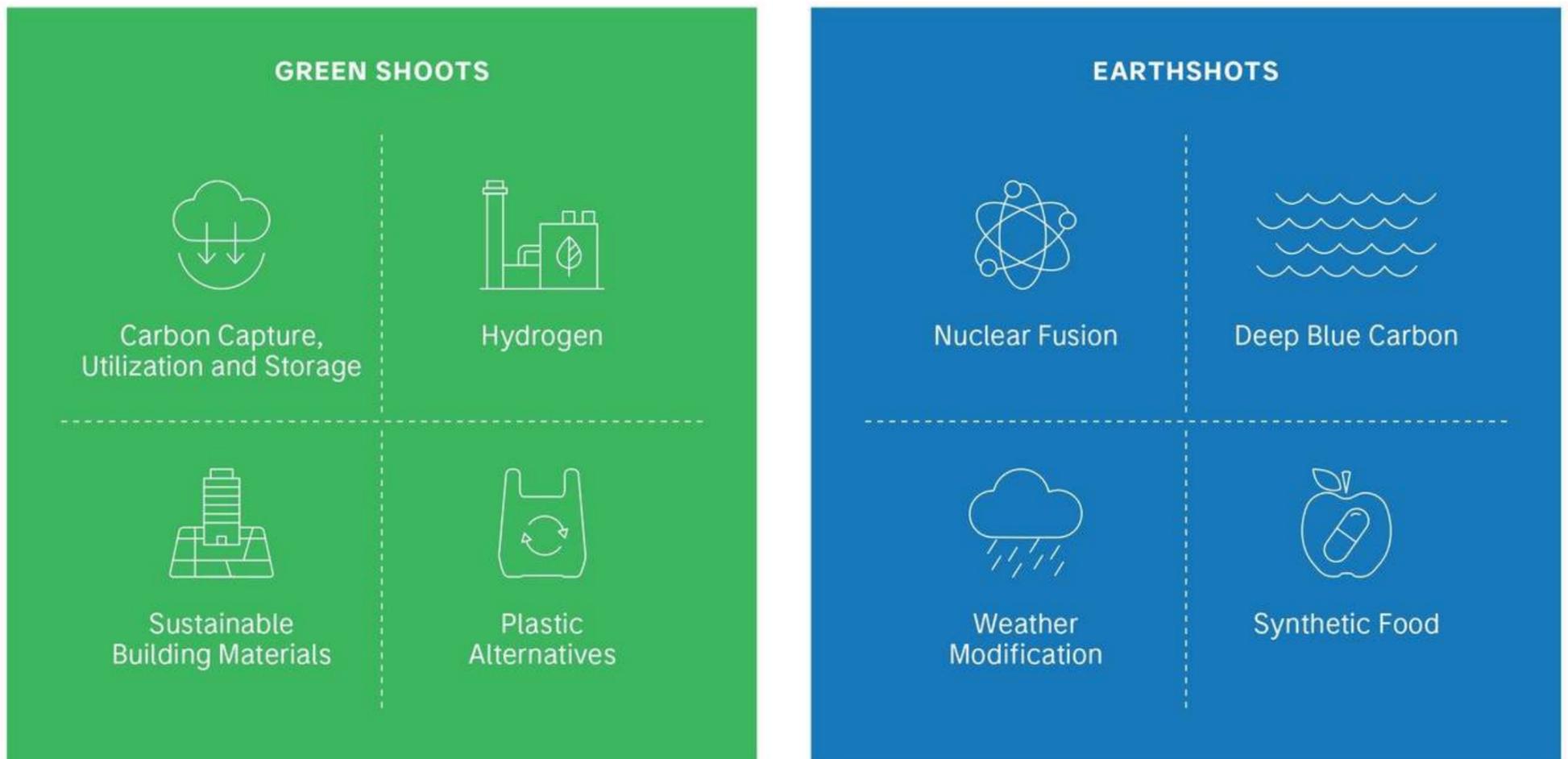
Can the “Earthshots” Land?

Radical breakthrough technologies, or what Morgan Stanley Research calls “Earthshots,” could deliver large-scale decarbonization benefits in the next decade but must overcome multiple technical and commercial hurdles. After a breakthrough ignition in 2022, nuclear fusion suggests a limitless supply of clean energy for the planet without radioactive waste. Some experts believe initial commercialization could happen by 2030, but feasibility and scale have not yet been determined.²⁴ Similarly, innovations around synthetic foods, lab-grown meats, weather modification (e.g., cloud seeding) and deep blue carbon have yet to see activity at scale. Still, they could deliver substantial benefits to sustainability goals.

“There is no single metric that can spot Earthshot potential, but there are leading indicators for investors,” says Stephen Byrd, Head of Sustainability Research at Morgan Stanley. “Academic publications can reinforce the technology’s value and patent quality and quantity can be proxies for corporate or start-up innovation spending. From there, venture funding can then be a strong precursor to where public market AUM flows towards over the long run.”

However, the potential of innovative technologies comes with an important caveat. Can we rely on these technologies to help our transition without fundamentally changing and rethinking business and economic models? Anticipation has already enabled delays in more substantive, meaningful progress, with the hope that technology will “save us” in the future.

GREEN SHOOTS AND EARTHSHOTS TECHNOLOGY SOLUTIONS



²⁴ Morgan Stanley Research, Thoughts on Fusion Energy Breakthrough (December 2022)

06 Demand for Voluntary Carbon Offsets

The need to achieve carbon neutrality targets will drive further growth in the voluntary carbon offset market. Challenges will need to be overcome to ensure transparency and verification.

Corporate Commitments and Technological Innovations Drive Growth

The voluntary carbon offset market is poised for growth as governments and companies use offsets to help mitigate the impact of their emissions while working on longer-term abatement. Recent estimates suggest that the voluntary carbon offset market could grow from \$2 billion in 2020 to more than \$250 billion in 2050.²⁵

In 2023, concerns about project quality and associated reputational risks have driven a sharp sell-off in voluntary carbon market prices. The pause in demand could continue in the short term, as corporates adjust their approach to carbon offsetting and high-integrity projects take time to build. If the actions taken on market integrity this year are successful, interest from corporates could recover further in the years ahead.

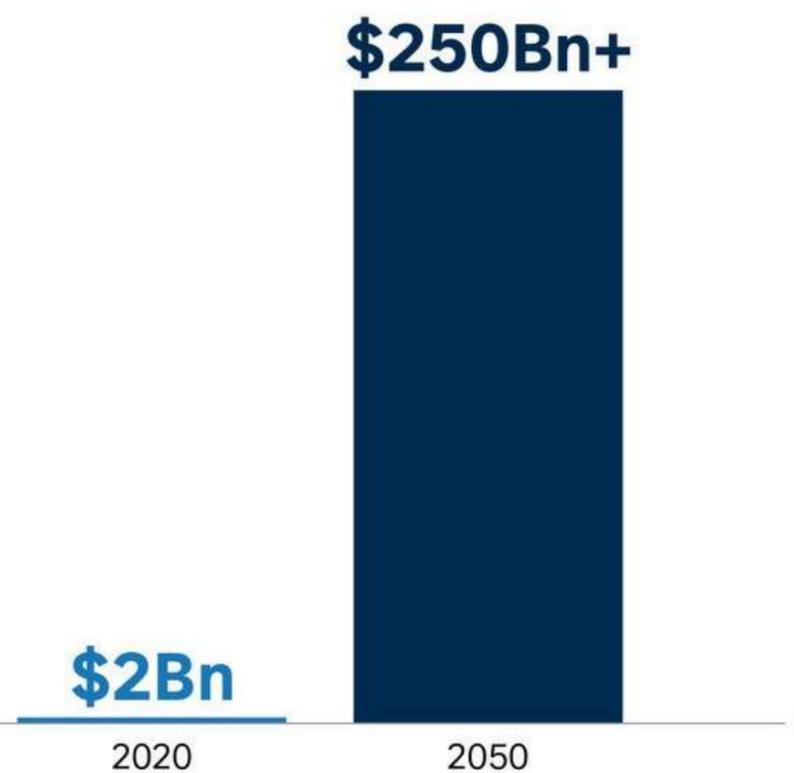
Similarly, technological innovations could help spur growth. Sustainable aviation fuel is an expensive but attractive way to offset emissions from air travel while demand for removal-based offsets, such as direct air capture, continues to grow. Corporate investments into new technologies through research and development initiatives will be critical to drive down prices and increase demand.

Recent estimates suggest that the voluntary carbon offset market could grow from \$2 billion in 2020 to more than \$250 billion in 2050.²⁵

Regulation Could Provide Transparency and Incentives

As demand for voluntary carbon offsets grows, ensuring transparency and verification for offset claims will be important for maintaining credibility, guaranteeing genuine emissions reduction and fostering trust among stakeholders. This has already begun to occur through initiatives such as the Integrity Council for the Voluntary Carbon Market beginning to assess projects according to its Core Carbon Principles framework.²⁶

“Establishing a credible carbon market will be an important driver in the energy transition,” says Iain Mackay, Head of Environmental Markets at Morgan Stanley. “Improved project integrity is key, and the convergence of compliance and voluntary carbon markets, such as with the introduction of the European Carbon Border Adjustment Mechanism (CBAM), will improve both liquidity and global comparability.”



²⁵ Where the Carbon Offset Market is Poised to Surge | Morgan Stanley (2023)

²⁶ Morgan Stanley Research, Carbon Offsets: A Reckoning, then Progress (September 6, 2023)

07 Demand for Definitions and Progress Across Social Themes

In the next decade, social criteria are poised to become both a much more important component of managing and understanding long-term risk and an area of increased investor interest for mobilizing capital.

Social Issues Reemerge on the Investor Agenda

Climate has dominated sustainable investing over the last decade. However, in 2020, the global COVID-19 pandemic and social justice movements in the United States put a spotlight on how companies approach issues such as employee well-being and diversity, equity and inclusion. According to a survey by the Institute for Sustainable Investing, 61% of U.S. individual investors expressed more interest in investing in public health and supporting small businesses due to the pandemic. 50% said they made investment changes or planned to do so in response to social justice movements.²⁷

Looking ahead, social issues will continue to gain prominence on investor agendas with growing attention on issues such as: the privacy and ethical implications of artificial intelligence; racial, gender and LGBTQ+ diversity; financial inclusion and affordable housing solutions; access to basic services such as healthcare and education; and the disproportionate social implications of physical climate events.

Additionally, a focus on delivering a just and equitable transition will be important for governments, businesses and investors as economies shift away from fossil fuels and high-carbon industries. There will be a growing need to ensure the well-being of workers, communities and vulnerable populations are safeguarded and taken into consideration.

New Definitions and Frameworks for Understanding Social Issues

To date, it has been more difficult to invest in social themes relative to environmental ones due to challenges around standard definitions and measurement, as well as a lack of so-called “solution stocks.” The decade ahead is likely to see new attempts at addressing these challenges with the introduction of new outcomes-based frameworks that help standardize and quantify social issues and investment criteria. Similar to climate frameworks, it will likely take time for these frameworks to be tested and adopted.

Ultimately, this would help provide uniformity for reporting that allows investors to better assess social impacts and risks relative to returns, while driving greater attention on the role of private investment capital to support social outcomes as seen with climate. In the meantime, new “double materiality” disclosure requirements for corporates under the EU’s Corporate Sustainability Reporting Directive (CSRD) could help investors to assess the effects of company practices and products on society.

“The investor interest in social issues reflects a growing recognition that a company’s impact on society is an important factor in its long-term success. Whether that’s diversity, equity and inclusion, fair labor practices or the emerging focus on inclusive finance, investors want opportunities to actively manage social risks and mobilize capital towards solutions that empower people and uplift segments of society.”

COURTNEY THOMPSON

Head of Sustainable Products and Solutions at Morgan Stanley



²⁷ Morgan Stanley Institute for Sustainable Investing, Sustainable Signals: Individual Investors and the COVID-19 Pandemic (October 27, 2021)

08 Demand for Nature-Positive Investments and Financing

More than half of the global GDP is dependent on nature and the services it offers, which is at risk due to widespread degradation. There will be increased attention across the public and private sectors on halting biodiversity loss and restoring ecosystems. Investors will have an opportunity to help finance these efforts.

In 2022, the 15th Conference of the Parties to the Convention on Biological Diversity adopted the Kunming-Montreal Global Biodiversity Framework. It includes ambitious global goals for slowing and ultimately halting the extinction of species and degradation of natural habitats. Signatory countries must designate 30% of the world’s land and 30% of the world’s oceans as protected areas by 2030. This ‘30 by 30’ commitment would nearly double the amount of land and triple the safeguarded area of oceans.²⁸

The financing gap to meet this goal has been estimated at over \$700 billion annually.²⁹ Closing this gap and stopping biodiversity loss will require backing ambitious financing plans to direct capital to nature-positive efforts.

Currently, just 17% of current investments in biodiversity come from the private sector.³⁰ Lowering the investment barriers for private investors would help kickstart nature-positive investments and help finance previously unattainable goals.

“Despite the clear economic and financial risks posed by nature and biodiversity loss, maintaining healthy natural ecosystems has historically been the role of the public sector,” says Matthew Slovik, Head of Global Sustainable Finance at Morgan Stanley. “Nature-positive investments need to come into play so that investors can help scale solutions and mitigate potential risks. This will require long-term planning, capital and collaboration between public and private stakeholders.”

THREE OPPORTUNITIES FOR DEVELOPING SCALABLE NATURE-FINANCING MECHANISMS

1

Incorporating nature-related risks into existing investment strategies, including better understanding how a company’s dependencies and impact on nature could affect financial performance.

2

Integrating nature considerations within more established climate markets, such as carbon credits, to help attract existing pools of climate-oriented investment capital.

3

De-risking nature-positive investments via flexible and patient capital from development institutions, philanthropic organizations and government agencies to help bridge the risk-return profile of nature-based projects to match the expectations of market-rate investors.



²⁸ Convention on Biological Diversity, Kunming-Montreal Global Biodiversity Framework (October 4, 2023)

²⁹ The Nature Conservancy, A New Deal to Close the Nature Finance Gap (September 22, 2021)

³⁰ Morgan Stanley, How Investing Can Protect Global Biodiversity (May 19, 2023)

09 Demand for Sustainable Supply Chains

A supply chain reset driven by new regulations and geopolitical tensions will likely gain momentum as stakeholders increasingly hold companies accountable for environmental considerations as well as human rights and labor practices.

Circularity and Environmental Considerations

To date, most sustainability efforts have concentrated on direct operations. However, companies will need to increasingly look further afield to ensure their supply chains are adhering to the same sustainability principles. This includes the environmental impact of sourcing raw materials, or the carbon footprint of transporting goods. These initiatives will require strong supplier partnerships and technology that allows companies to track inputs, trace products and monitor their direct and indirect environmental impact.

Human Rights and Labor Practices

Companies are also likely to conduct enhanced due diligence on human rights and labor practices within their supply chains.

While some industries are already tackling the impact of human rights concerns in their supply chain, others have been slower to recognize the risks such issues pose. Expanding legislative and policy efforts, such as the EU's proposed Corporate Sustainability Due Diligence Directive (CSDDD), can help to end the use of forced labor and other egregious abuses in the years ahead. New blockchain solutions could also help ensure greater transparency, ensuring companies are aware of instances of forced or child labor, discrimination or challenges to freedom of expression.

This heightened visibility encourages companies to closely scrutinize their suppliers to ensure compliance with these regulations.

“Global supply chains have experienced unprecedented pressure and disruption, including the lingering impacts of COVID-19, geopolitical tensions, armed conflict, changing trade policies and mounting sustainability concerns. These forces are driving companies to rethink their supply chains and operating models.”

MELISSA JAMES

Vice Chairman of Global Capital Markets and
Head of the ESG Center of Excellence at Morgan Stanley



10 Demand for Qualified Talent

Sustainability skills and ESG expertise are in high demand across corporates and investors, with a talent gap already emerging. Cross-sector collaboration will be needed to ensure a strong pipeline of talent with the appropriate credentials and skillsets to meet growing demands.

The Sustainability Talent Gap

In recent years, there has been a significant increase in demand for sustainability skills and ESG experts. Between 2021 and 2022, sustainability-focused hires in finance rose by 17%, with skills related to carbon accounting and carbon emissions experiencing the highest growth in the U.S. and EU (Figure 6).³¹

At the same time, a critical talent crunch is emerging. In 2022, only 39% of asset managers and 23% of asset owners said they could find qualified individuals to meet their sustainable investing needs.³² Without proper training through universities and professional development, employers could still face a skills gap in meeting sustainability demands.

We expect cross-sector collaboration between academic institutions and the private sector to close that gap by producing graduates with the requisite skills for succeeding in sustainable finance. Recruitment pipelines from universities with rigorous sustainability programs could also become a talent differentiator.

“Over the last two years, the Morgan Stanley Global Sustainability Office has doubled its headcount to meet growing demand for sustainability expertise,” says Jessica Alsford, Chief Sustainability Officer and CEO of the Institute for Sustainable Investing. “It’s important that a new generation of leaders can help create and support scalable sustainable finance solutions. This is the driver behind the Institute’s Sustainable Investing Fellowship and Kellogg-Morgan Stanley Sustainable Investing Challenge, which give students the opportunity to develop sustainability skills that can further grow the field and help close the emerging talent gap.”

Sustainability as a Recruitment and Retention Strategy

Even for jobs that do not directly include sustainability, employees of all age groups want to work at companies with firm commitments to ESG factors. For example, a 2022 survey of 18–24-year-old office workers in the UK found that at least half would consider leaving a job because of the company’s net-zero policies. Roughly one-third of employees in age groups over 24 would do the same.³³

FIGURE 6

Fastest growing sustainable finance skill, % increase from 2021-2022

UNITED STATES			EUROPEAN UNION		
#1	Carbon accounting	+241%	#1	Carbon emissions	+131%
#2	Carbon credits	+157%	#2	Carbon accounting	+130%
#3	Carbon emissions	+141%	#3	Sustainability reporting	+88%
#4	Energy audits	+122%	#4	Impact assessment	+75%

Source: Global Green Skills Report 2023

³¹ LinkedIn Economic Graph, Global Green Skills Report 2023

³² Morgan Stanley Institute for Sustainable Investing, Sustainable Signals: Opportunities for Asset Managers to Meet Asset Owner Demands (November 29, 2022)

³³ McKinsey & Company, Mind the Gap: Curated Reads for Gen Z-and their Z-Curious Colleagues

Conclusion

Continued efforts to create a more sustainable and inclusive global economy makes it inevitable that investors will pay increasing attention to sustainability over the next ten years. However, it won't be an easy route ahead. All stakeholders will need to collaborate to find appropriate ways to finance the transition in a manner that considers the complex interdependencies of many key environmental and social issues.

The ten signals in this report help identify where progress is occurring, what remains to be done and how stakeholders must come together to overcome obstacles. We will continue to track these signals over the next decade to identify emerging trends and ways in which we can help realize opportunities in ways that satisfy the criteria of all stakeholders. We are both optimistic and realistic about what is possible, and the role financial solutions can play in making a more sustainable and resilient world for people and all life on Earth.

The Morgan Stanley Institute for Sustainable Investing

Established by CEO and Chairman James Gorman in 2013, the Morgan Stanley Institute for Sustainable Investing aims to accelerate sustainable finance by driving innovation, empowering investors with insights and supporting the development of the next generation of sustainable investing leaders. The Morgan Stanley Institute for Sustainable Investing is guided by an advisory board of prominent leaders from business, academia and nongovernmental organizations, and is utilized to drive strategic internal sustainability-focused initiatives.

1

Delivering insights to inform and empower investors and corporates on sustainable finance trends and thematic issues such as climate change, nature and biodiversity, sustainable consumption and production and inclusive growth.

2

Driving innovation by leveraging the Firm's experience and market perspective to advance the field of sustainable investing, including our Sustainable Solutions Collaborative and annual Sustainable Finance Summit.

3

Developing the next generation of sustainable investing leaders through strategic partnerships and programs, such as the Sustainable Investing Fellowship and Kellogg-Morgan Stanley Sustainable Investing Challenge.

For more information about the Morgan Stanley Institute for Sustainable Investing, visit morganstanley.com/sustainableinvesting.

DISCLOSURES

This material was published in October 2023 and has been prepared for informational purposes only and is not a solicitation of any offer to buy or sell any security or other financial instrument or to participate in any trading strategy. This material was not prepared by the Morgan Stanley Research Department and is not a Research Report as defined under FINRA regulations. This material does not provide individually tailored investment advice. It has been prepared without regard to the individual financial circumstances and objectives of persons who receive it.

Morgan Stanley Smith Barney LLC and Morgan Stanley & Co. LLC (collectively, "Morgan Stanley"), Members SIPC, recommend that recipients should determine, in consultation with their own investment, legal, tax, regulatory and accounting advisors, the economic risks and merits, as well as the legal, tax, regulatory and accounting characteristics and consequences, of the transaction or strategy referenced in any materials. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. Morgan Stanley, its affiliates, employees and Morgan Stanley Financial Advisors do not provide tax, accounting or legal advice. Individuals should consult their tax advisor for matters involving taxation and tax planning, and their attorney for matters involving legal matters.

Past performance is not a guarantee or indicative of future performance. Historical data shown represents past performance and does not guarantee comparable future results.

Certain statements herein may be "forward-looking statements" within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements are not historical facts or statements of current conditions, but instead are based on management's current expectations and are subject to uncertainty and changes in circumstances. These statements are not guarantees of future results or occurrences and involve certain known and unknown risks, uncertainties and assumptions that are difficult to predict and are often beyond our control. In addition, this report contains statements based on hypothetical scenarios and assumptions, which may not occur or differ significantly from actual events, and these statements should not necessarily be viewed as being representative of current or actual risk or forecasts of expected risk. Actual results and financial conditions may differ materially from those included in these statements due to a variety of factors.

Any forward-looking statements made by or on behalf of Morgan Stanley speak only as to the date they are made, and Morgan Stanley does not undertake to update forward-looking statements to reflect the impact of circumstances or events that arise after the date the forward-looking statements were made. Because of their narrow focus, sector investments tend to be more volatile than investments that diversify across many sectors and companies.

The returns on a portfolio consisting primarily of Environmental, Social and Governance ("ESG") aware investments may be lower or higher than a portfolio that is more diversified or where decisions are based solely on investment considerations. Because ESG criteria exclude some investments, investors may not be able to take advantage of the same opportunities or market trends as investors that do not use such criteria. Diversification does not guarantee a profit or protect against loss in a declining financial market.

Investing in the market entails the risk of market volatility. The value of all types of investments, including stocks, mutual funds, exchange traded funds ("ETFs"), and alternative investments, may increase or decrease over varying time periods.

Investors should carefully consider the investment objectives and risks as well as charges and expenses of a mutual fund/exchange-traded fund before investing. To obtain a prospectus, contact your Financial Advisor or visit the fund company's website. The prospectus contains this and other information about the mutual fund/exchange-traded fund. Read the prospectus carefully before investing

Because of their narrow focus, sector investments tend to be more volatile than diversified investments. No reports, documents or websites that are cited or referred to in this report shall be deemed to form part of this report. In addition, certain information contained in this report has been derived from publicly available information released by third-party sources, which Morgan Stanley believes to be reasonable, although Morgan Stanley has only been able to complete limited validation. Morgan Stanley makes no representation as to the accuracy or completeness of data from sources outside of Morgan Stanley. These and other factors could cause results to differ materially from those expressed in the estimates and beliefs made by third parties and by Morgan Stanley. References to third parties contained herein should not be considered a solicitation on behalf of or an endorsement of those entities by Morgan Stanley.

For more information about the Morgan Stanley Institute for Sustainable Investing, visit morganstanley.com/sustainableinvesting.

Double Materiality & ESG

10 Questions answered

Visual Explainer

Impact materiality is defined as:

- The Actual or Potential, Negative or Positive impacts on Society or the Environment * over the short-, medium- and long-term...
- ...caused by the undertaking's:
 - Operations
 - Products
 - Services
- ...for both downstream and upstream activities "a.k.a. the value chain".

Or simply put : All (potential) impacts on Environment and Society that can be attributed to activities of the company.

The principle of Double Materiality recognizes that an undertaking can both have

- an **impact on** Environment, Social and Governance "ESG" issues (=Impact Materiality), and
- be **impacted by** ESG issues (=Financial materiality).

Double Materiality is also called the inside-out and outside-in approach.

Illustrative examples Positive and Negative Impact

Environment	Non-Financial service	Social
<ul style="list-style-type: none">Activities with high CO₂ EmissionsGenerating waste and (air) PollutionRenewable energy targets		<ul style="list-style-type: none">Human Rights violations in the value chainHealth & Safety of employeesUpskilling, Diversity & Inclusion policiesCustomer Satisfaction
	Financial service	
	<ul style="list-style-type: none">Unethical business conduct leading to social harmFinancing projects linked to Human Rights violationsData privacy proceduresMortgages aimed at lower incomes	

In short, start by mapping the impacts of the undertaking and its stakeholders to determine which are considered material.

Illustrative example value chain

Producer (Raw materials) → Manufacturer → Suppliers

Illustrative example value chain & stakeholders

Counterparty → Borrower (retail) → Asset owner / issuer → Employees

Illustrative examples Risk and Opportunity

Environment	Non-Financial service	Social
<ul style="list-style-type: none">Impact of climate change on raw materials and production capacityCO₂ Tax regulations (i.e. lower profits)Timely transition to low-carbon products (i.e. lower cost)Low-emission products (i.e. competitive advantage)		<ul style="list-style-type: none">Shift in consumer preferences (i.e. stranded assets)Lower employee productivityTalent attraction (i.e. Human Capital)Health and safety measures (i.e. legal costs and Human capital)
	Financial service	
<ul style="list-style-type: none">Climate impacting client's business, leading to default risk and drop in collateral valueReal estate collapse in low-laying areasInclusion of Climate impact in Models & PricingInclusion of Climate and nature in Risk management framework	<ul style="list-style-type: none">Reputational damage due to lack of product transparencySocietal scrutiny over net-zero pathAccess to skilled Human CapitalMeeting Customer demand for Sustainable finance products	

Engaging relevant stakeholders (same step as for materiality)

Determine which topics could be financially material, consider the existence of dependencies on natural and social resources.

Classify these sources in (potential) risks or Opportunities.

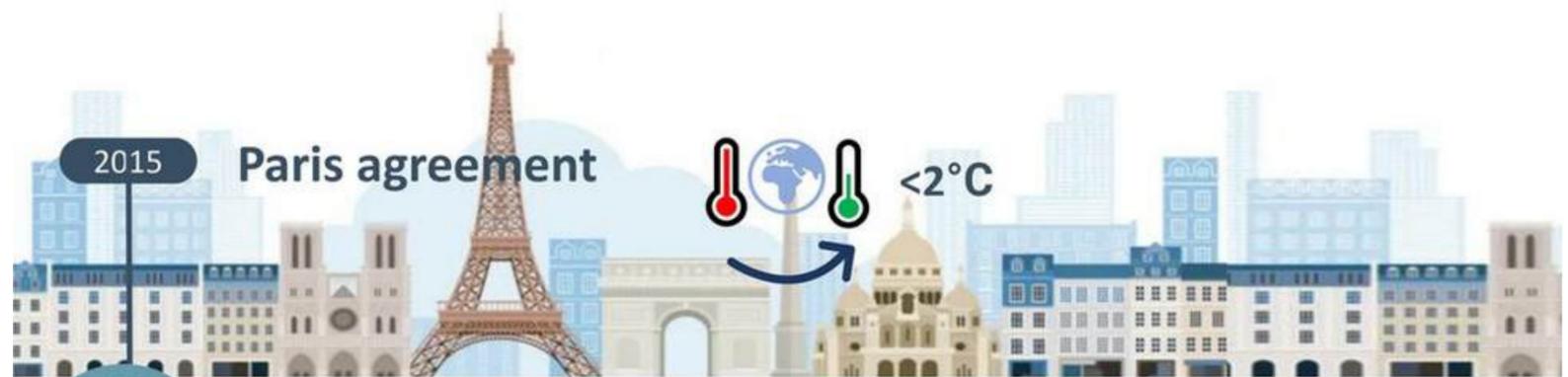
Determine which topics are financially material, based on the Likelihood of occurrence and Magnitude of financial impact.

Perform this assessment for different time horizons.

Swipe left

1/10.

Before we start, what is the 'origin story' of Double Materiality?



In 2019, following the Paris Agreement, **the European Green Deal** was launched. The main goal is to make Europe a climate neutral continent by 2050.



Part of this 'Deal' is the **EU Action Plan on Sustainable Finance**.

The Action Plan encourages sustainable investments, by among others, strengthening sustainability disclosures...



..hence the Corporate Sustainability Reporting Directive (**CSRD**), with the accompanying European Sustainability Reporting Standards (**ESRS**).

An important pillar of the CSRD is the **Double Materiality Assessment**.

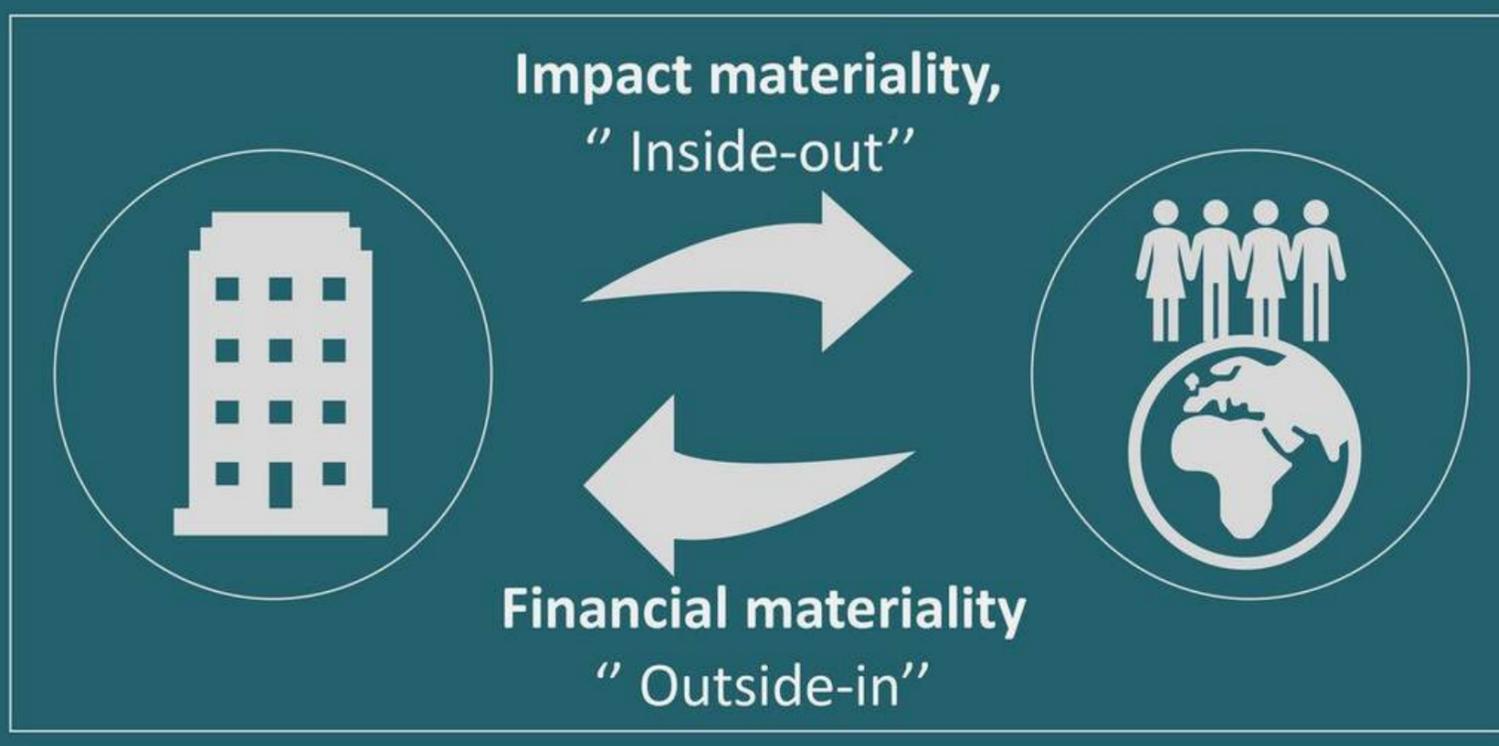
2_{/10}.

So, what is Double Materiality?

The principle of Double Materiality recognizes that an undertaking can both have

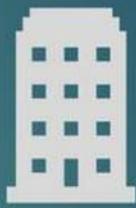
- an **impact on** Environment, Social and Governance “ESG” issues (=Impact Materiality), and
- be **impacted by** ESG issues (=Financial materiality).

Double Materiality is also called the inside-out and outside-in perspective.



3_{/10}.

Tell me more about Impact materiality?



Impact materiality,
"Inside-out"



Impact materiality is defined as:

① The **Actual** or **Potential**, **Negative** or **Positive** impacts on Society or the Environment *  over the short-, medium- and long-term...

② ..caused by the undertaking's



Operations

Products

Services

③ ...for both downstream and upstream activities 'a.k.a. the value chain'.



Or simply put : All (potential) impacts on Environment and Society that can be (indirectly) attributed to activities of the company.

* The explainer will further focus on Societal and Environmental factors

4/10.

What are some examples of topics with Impact materiality?

Illustrative examples Positive and Negative Impact



Non-Financial service

Environment

- Activities with high CO2 Emissions
- Generating waste and (air) Pollution
- + Usage of renewable energy
- + Reduced CO2 targets

Social

- Human Rights violations in the value chain
- Health & Safety of employees
- + Upskilling , Diversity & inclusion policies
- + Customer Satisfaction



Financial service

- Financing high CO2 emitters
- Financing projects negatively impacting biodiversity
- + Climate risk management
- + Green Loans and Bonds

- Unethical business conduct leading to social harm
- Financing projects linked to Human Rights violations
- + Data privacy procedures
- + Mortgages aimed at lower incomes



5_{/10}.

How to start the assessment for Impact materiality?



In short, start by mapping the company's value chain and **involve stakeholders** to determine which ESG topics are considered material.

Illustrative example value chain & stakeholders - Non-Financial service



Illustrative example value chain & stakeholders - Financial service



6_{/10}.

After gathering a list of topics with a (potential) impact, what's next?

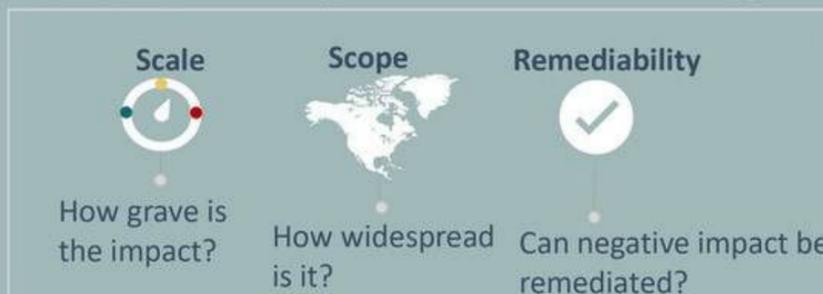
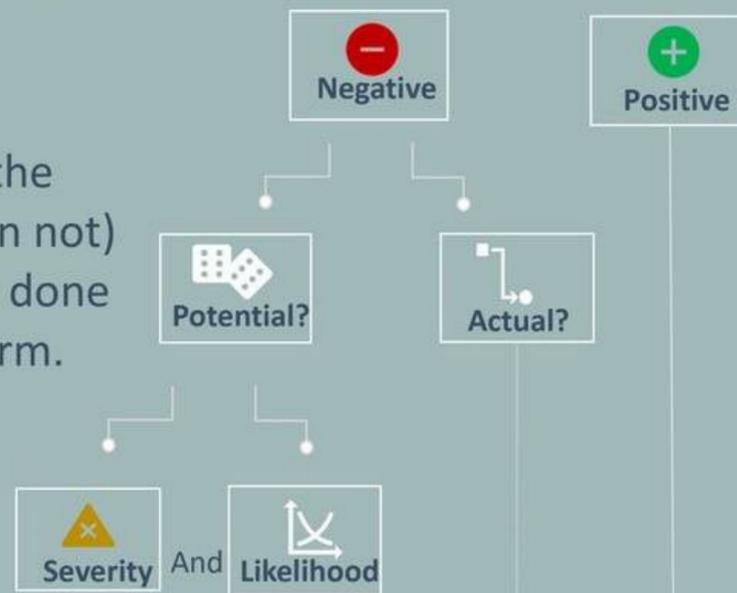
1 For Impact Materiality, the next step is to determine (together with an expert) if the list of identified topics have a (potential) positive or negative impact on Environment and/or Society.

2 For **negative** impacts, determine if the impact is **potential** (more likely than not) or **actual**. Remember, this has to be done over the short, medium and long term.

3 For all potential impacts, further determine the **Severity** and **Likelihood**.

4 The Severity is determined based on three variables.

5

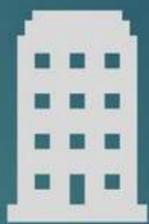


For all **Positive & Potential** impacts, determine Scale, Scope and Likelihood

For all **Positive & Actual** impacts, determine Scale and Scope

7/10.

Ok moving on,
what is Financial materiality?



Financial materiality,
“Outside-In”

① A Sustainability topic is material from a financial perspective if it (may) **trigger** a financial impact on the undertaking.



② This means that an Environment or Social matter either generates **Risks** or **Opportunities**, that (are likely to) **influence** the undertaking's future:



③ ...over the **short-, medium- and long-term.**
(i.e. this also includes matters not yet captured in the Financial report at Balance sheet date)



8/10.

What are some examples of topics that can be Financially material?

Illustrative examples Risk and Opportunities



Non-Financial service

Environment

- Impact of climate change on raw materials and production capacity
- CO2 Tax regulations (i.e. lower profits)
- Timely transition to renewables (i.e. lower cost)
- Low-emission products (i.e. competitive advantage)

Social

- Shift in consumer preferences (i.e. stranded assets)
- Lower employee productivity
- Talent attraction (i.e. Human Capital)
- Health and safety measures (i.e. legal costs and Human capital)



Financial service

- Climate impacting client's business, leading to default risk and drop in collateral value
- Real estate collapse in low-lying area's
- Inclusion of Climate impact in Models & Pricing
- Inclusion of Climate and nature in Risk management framework

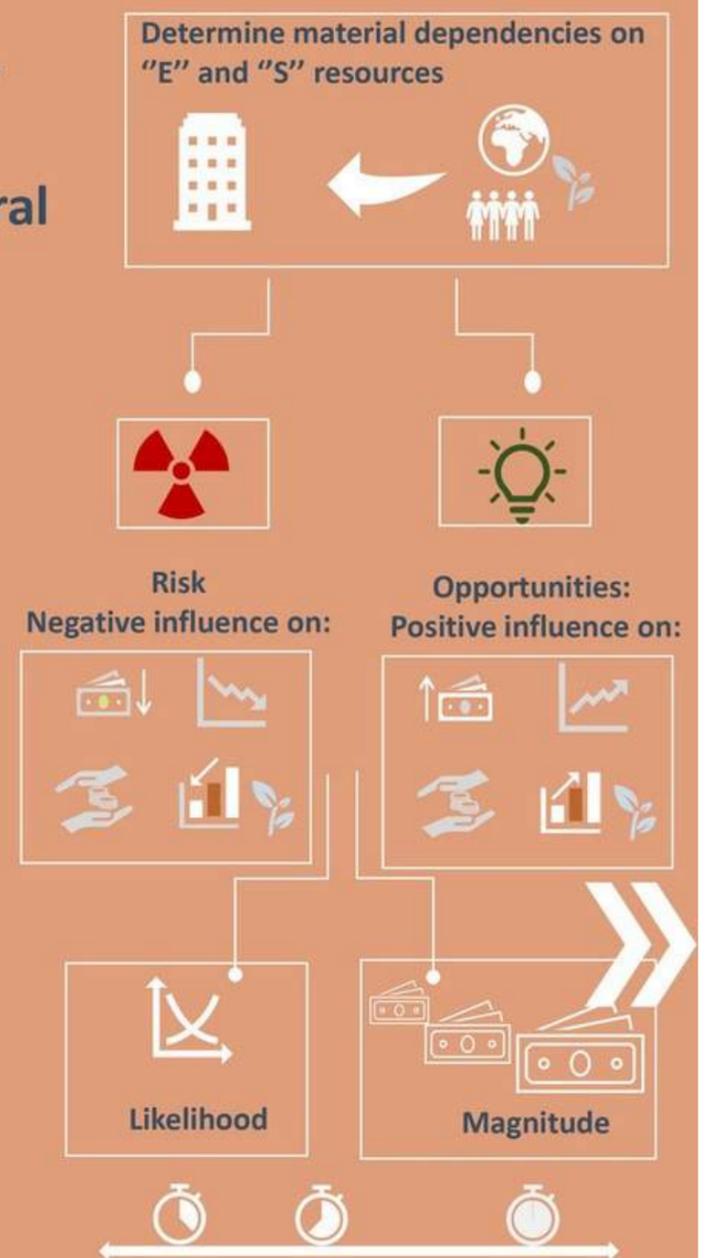
- Reputational damage due to lack of product transparency
- Societal scrutiny over net-zero path
- Access to skilled Human Capital
- Meeting Customer demand for Sustainable finance products



9_{/10}.

How to assess Financial materiality topics?

- 1 Start with engaging relevant stakeholders (same step as for impact materiality)
- 2 To determine which topics could be Financially material, consider the existence of dependencies on **natural** and **social** resources.
For FS-sector, consider this for the borrower/ counterparty.
- 3 Classify these sources into (potential) Risks or Opportunities.
- 4 Determine which topics are material, based on the **Likelihood** of occurrence and **Magnitude** of financial impact.
- 5 Perform this assessment for different time horizons.



10_{/10}.

Ok, that's a lot to take in.

Perhaps a summary and some final thoughts?

- **In summary**, Double Materiality refers to the impact the undertaking has on Environment and Society and in turn the financial impact (=risk and opportunities) these two factors have on the undertaking.
- A topic is considered material if it has EITHER a Material Impact OR Financial Impact OR both.
- To determine which topics are material, the undertaking should engage with its stakeholders to gather their perspectives and compile an initial list. This should be done multiple times throughout the assessment process to determine the final material topics.
- Once possible material topics have been identified, these should be assessed and disclosed in line with the ESRS requirements (see illustration in Annex).

Please note, this process is not linear and will require having multiple 'back-and-forth' with the stakeholders to understand the material topics.



Final Thoughts. Although the double materiality assessment is currently part of a compliance requirement, being the CSRD, it is still a useful model even if your company does not directly fall under the CSRD in the near future. This is because the assessment can also be a useful framework from an ESG Risk Management and Strategy perspective.

The concept is also useful for your day-to-day. Whether you're working in HR, Finance, Risk, Procurement or any other profession, using double materiality helps you to identify the ESG impacts you have, and how ESG Risks and opportunities (e.g., financial materiality) can influence your activities.

If you would like to know more, or want to discuss practical steps to get started, please feel free to reach out to me.

Pratillia Tahal



ANNEX:

- 1. Sources
- 2. ESRS at a glance

Annex 1

Sources



ESRS 1 General Requirements



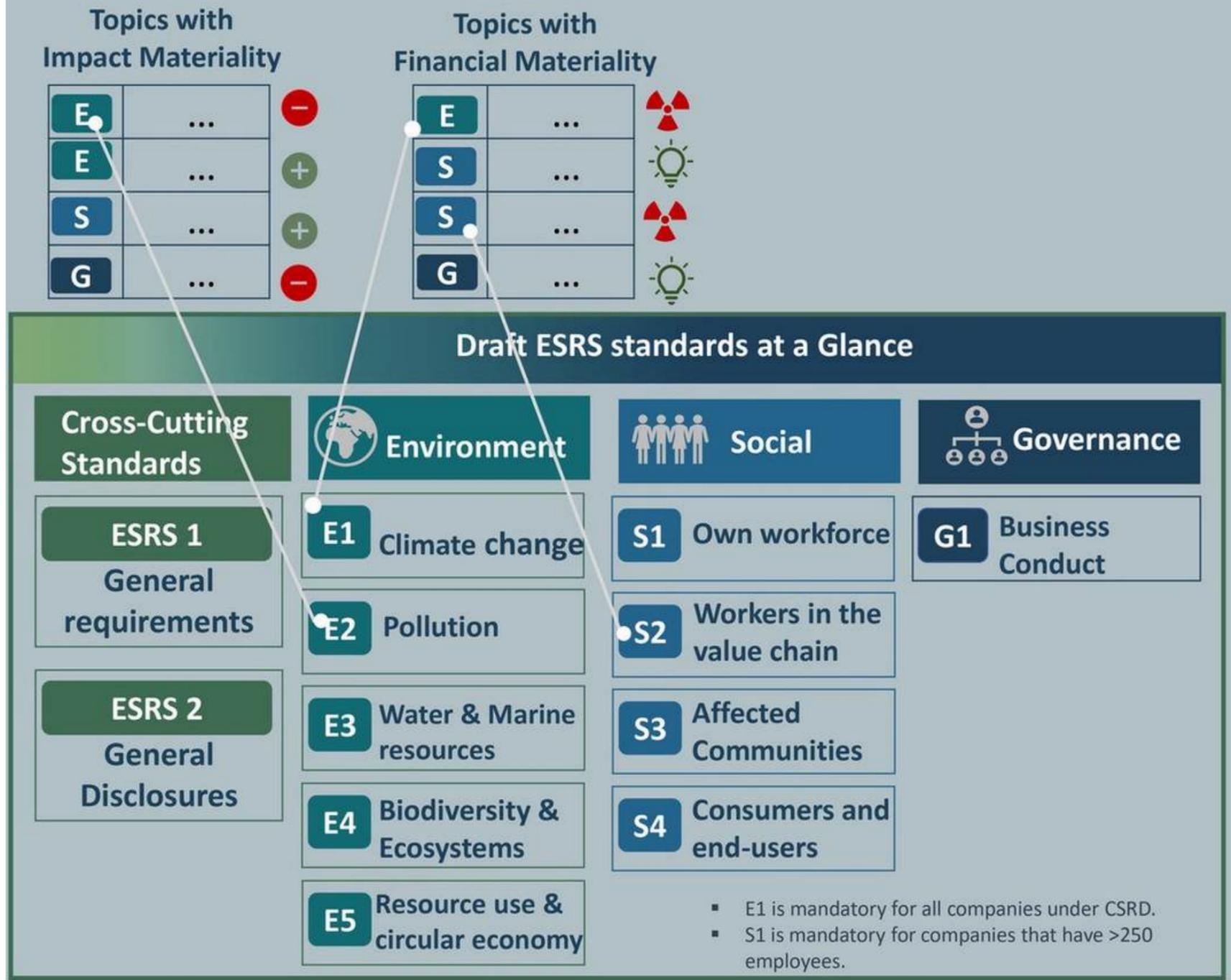
ESRS 2 General Disclosures



For full tekst of other ESRS standards or short (+- 7min) or long (+-20-25min) video explanations, check out the site of the EFFRAG [Link](https://www.efrag.org/lab6)
(or Paste URL: <https://www.efrag.org/lab6>)

Annex 2

Stylised example – **At the very last stage**, as part of reporting under the CSRD, the material topics should be disclosed in line with the ESRS, which are the reporting standards under the CSRD.





HIGHLIGHTS FROM THE PRESENTATION ON THE NPO SECTOR SURVEY

Based on

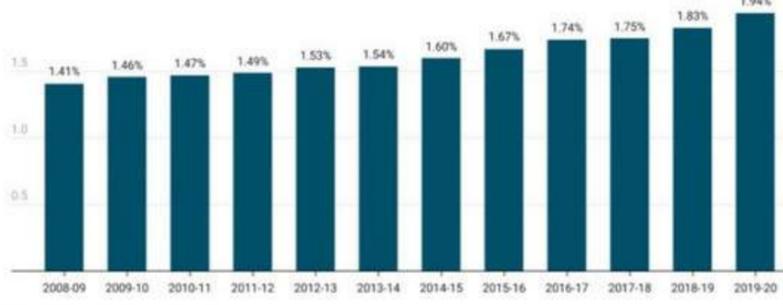
India's Million Missions

India's Non-Profit Sector Report by CSO Coalition@75

Hand-out prepared by GuideStar India based on

The Non-Profit Sector Survey 2022-23, Preliminary Results

A study by GuideStar India and the IIM Ahmedabad Research Team for CSO Coalition@75

THE CONTEXT																												
 <p>Credibility of social sector is constantly questioned.</p>	 <p>Easy Difficulty of doing good is going up with increase in compliance and reporting. In the CAPS' Doing Good Index (DGI) of 18 Asian economies, India stayed in the Doing Okay category in past 3 editions of 2018, 2020 and 2022.</p>	 <p>Value and contribution of NPO sector in nation building should be discussed when India celebrated India@75!</p>																										
THE ACTION AND EFFORT																												
<p>Concerned individuals and organisations in the NPO sector came together in 2022 to DOCUMENT credible evidence of the contribution of non-profit organisations, to widely DISSEMINATE the findings and to ENGAGE constructively with government, businesses and citizens. The group, called CSO Coalition@75, worked through various research components:</p> <ul style="list-style-type: none"> • Estimation of the Economic Value of NPO Sector • Non-Profit Sector Survey  • Thematic Reports <ul style="list-style-type: none"> • Age Care • Animal Protection • Arts and Culture • Child Rights • CSR and Business Responsibility • Disability • Education • Livelihood Promotion and Microfinance • Mental Health • Public Health • Social Justice and more  																												
ESTIMATION OF THE ECONOMIC VALUE OF NPO SECTOR																												
<p>Estimated Share of the NPO sector in GDP, India (2009-10 to 2019-20)</p>  <table border="1"> <thead> <tr> <th>Year</th> <th>Share (%)</th> </tr> </thead> <tbody> <tr><td>2008-09</td><td>1.41%</td></tr> <tr><td>2009-10</td><td>1.46%</td></tr> <tr><td>2010-11</td><td>1.47%</td></tr> <tr><td>2011-12</td><td>1.49%</td></tr> <tr><td>2012-13</td><td>1.53%</td></tr> <tr><td>2013-14</td><td>1.54%</td></tr> <tr><td>2014-15</td><td>1.60%</td></tr> <tr><td>2015-16</td><td>1.67%</td></tr> <tr><td>2016-17</td><td>1.74%</td></tr> <tr><td>2017-18</td><td>1.75%</td></tr> <tr><td>2018-19</td><td>1.83%</td></tr> <tr><td>2019-20</td><td>1.94%</td></tr> </tbody> </table> <p>NPO Sector contributes 1.94% to the GDP</p> <ul style="list-style-type: none"> • Estimated contribution of the NPO sector Gross Value Added (GVA), as of 2019 – 20, is INR 3560 billion or USD 44 bn. • Value-added is defined as the value of output minus the costs of inputs. It is a measure of the economic contribution of the enterprise or the sector to the economy. The value-added in GDP or National accounts includes wages, salaries, interest, depreciation, rent, taxes and profit. <p><i>The macroeconomic study for India's Million Missions was conducted by Society for Social and Economic Research (SSER), New Delhi. For details, please write to director@sser.in</i></p>			Year	Share (%)	2008-09	1.41%	2009-10	1.46%	2010-11	1.47%	2011-12	1.49%	2012-13	1.53%	2013-14	1.54%	2014-15	1.60%	2015-16	1.67%	2016-17	1.74%	2017-18	1.75%	2018-19	1.83%	2019-20	1.94%
Year	Share (%)																											
2008-09	1.41%																											
2009-10	1.46%																											
2010-11	1.47%																											
2011-12	1.49%																											
2012-13	1.53%																											
2013-14	1.54%																											
2014-15	1.60%																											
2015-16	1.67%																											
2016-17	1.74%																											
2017-18	1.75%																											
2018-19	1.83%																											
2019-20	1.94%																											
Challenges in computing NPO sector contribution to GDP																												
<p>NPO sector is a Composite sector</p> <ul style="list-style-type: none"> • NPO Sector is not defined as a “sector” in the system of national accounts of a country, it includes parts of other sectors such as education, health and so on • Requires use of Satellite accounts which are based on surveys of establishments and institutions in the sector 	<p>Measuring the economic value of contribution of volunteers</p> <ul style="list-style-type: none"> • Volunteers account for more than three-fourths of workers in the sector • Average economic contribution of volunteers in the formal NPO sector is assumed same as of paid workers and in the informal sector, taken as 2/3 of that in the formal sector 																											
<p>Issues with measurement of the Services sector</p> <ul style="list-style-type: none"> • Difficulties in measuring value of output itself • Challenges relating to computing rate of inflation for value of services • Inability to measure on ground and so use of indicators as proxies for existence and growth of some services 	<p>Measuring output for NPO Sector</p> <ul style="list-style-type: none"> • Estimating value-added and not value • Tangible contribution is long term and indirect and affected by uncertainties of other related factors • Substantial contribution is intangibles with long-term benefits, difficult to compute its present value 																											
<p>Numbers alone cannot reveal NPO sector's contribution to GDP!</p> <ul style="list-style-type: none"> • Thematic sub-sector reports could supplement quantitative results with qualitative evidence of contribution • Case studies could highlight the changes the sector has inspired in policy making 																												

NON-PROFIT SECTOR SURVEY 2022 – 23, PRELIMINARY RESULTS, PHASE 1

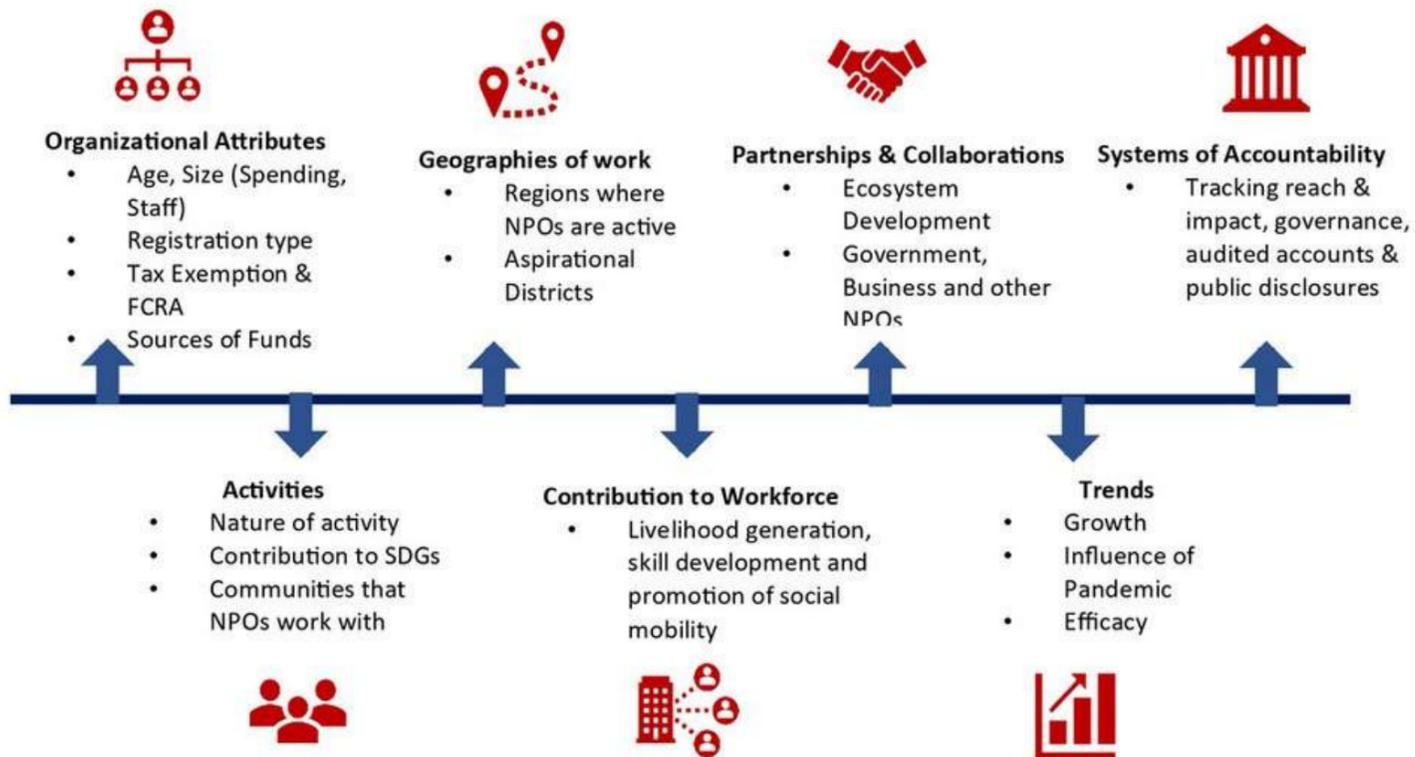
GuideStar India & IIM Ahmedabad Research Team

- An online survey in English + Hindi
- Combined effort of all the coalition partners
- Email, Webinars and workshops
- Phase 1 of the NPO survey - September to December 2022
- Relevant sample size (n) varies from 851 to 515

- Reached 200,000 NPOs
- Direct Mail 155,000
- Responses 1,000
- 851 Validated responses**
- Survey Questions 106
- Average time taken 1h:34m:35s
- 3000+ hours spent by NPOs in phase 1 data gathering (estimated)

~90,000
data points
analysed

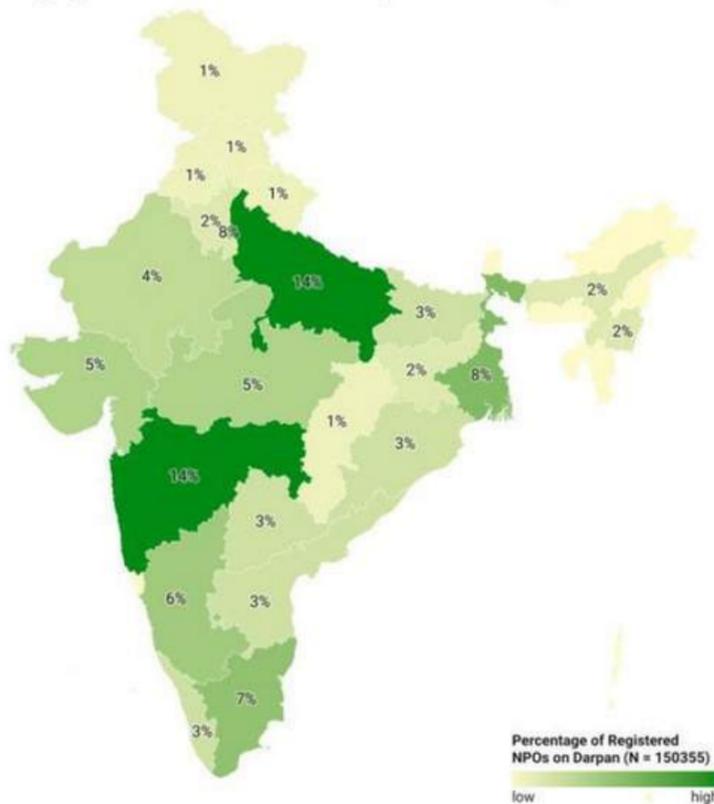
What areas the analysis covers



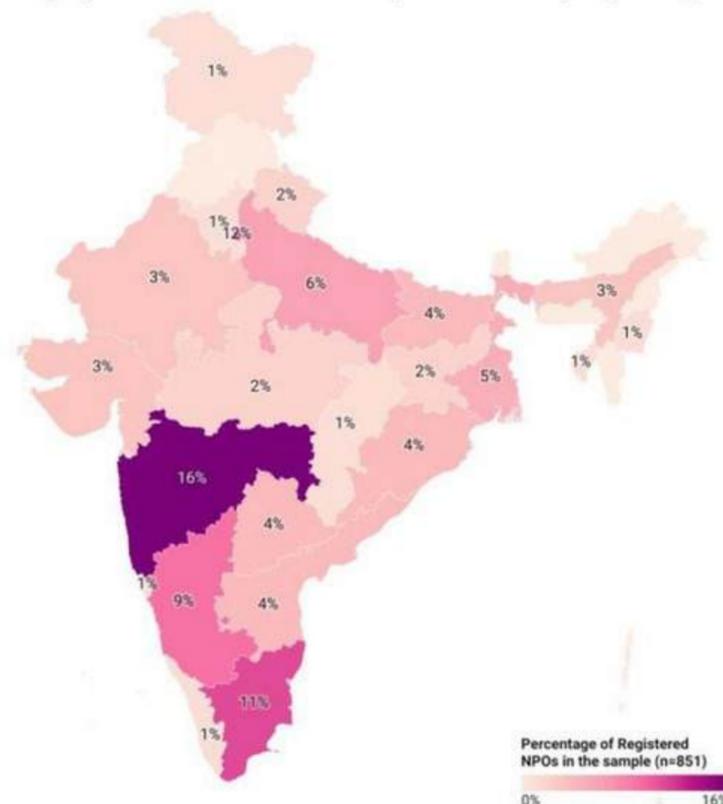
Geographical distribution of NPOs in India - NITI Aayog's DARPAN vs Survey Sample

- Our sample distribution is similar to NITI Aayog's Darpan (except UP -8% and Tamil Nadu +4%) (n=851)
- GuideStar India's database of 12000+ organisations reflects a similar distribution

Geographical Distribution of Nonprofits in India, Oct 2022



Geographical Distribution of Nonprofits in Sample (n=851)



Map: GSI - Source: Darpan Database - Created with Datawrapper

Source: Nonprofit Sector Study 2022 - 23 - Created with Datawrapper

Geographies of work

All states and UTs are represented in the sample

- **Maharashtra, TN, Karnataka, UP, Delhi top states (n=642)**
- 54% NPOs work in aspirational districts (n=639)

Less than 2% representation of Chhattisgarh, Uttarakhand, Manipur, Goa, Haryana, Jammu and Kashmir (UT), Kerala, Tripura, Himachal Pradesh, Mizoram and Punjab

5 states account for 50% of NPOs

Geographical Spread of Nonprofits in decreasing order of their presence in percentage (n=642)

	First Top State of work	Second Top State of work	Third Top State of work
Maharashtra	16%	16%	16%
Tamil Nadu	12%	12%	12%
Karnataka	9%	8%	9%
Uttar Pradesh	8%	8%	8%
Delhi (NCT)	6%	6%	6%
West Bengal	5%	5%	5%
Bihar	5%	5%	5%
Andhra Pradesh	4%	4%	4%
Odisha	4%	4%	4%
Rajasthan	4%	5%	4%
Assam	4%	4%	4%
Jharkhand	4%	4%	3%
Gujarat	3%	3%	3%
Telangana	3%	3%	3%
Madhya Pradesh	2%	2%	3%

Chart: GSI • Source: Nonprofit Sector Study 2022 - 23 • Created with Datawrapper

Size-wise distribution of number of states of work (n=515)

Expenditure in INR (2021 - 22)	Upto 1 Cr (n=316)	1 Cr - 5 Cr (n=115)	Above 5 Cr (n=84)	Total (n=515)
1 State	58%	50%	19%	50%
>1 - 5 States	31%	30%	30%	30%
> 5 States	11%	20%	51%	20%

Table: GSI • Source: Nonprofit Sector Study 2022 - 23 • Created with Datawrapper

Small and mid-size NPOs work very locally

- **50% work only in 1 state,** 30% in 2-5 states, 20% pan-India >5 states
- NPOs with annual expenditure of greater than INR 5 Cr annually, work pan-India comparatively, while small and mid-size NPOs work more locally

Most NPOs work in rural areas

- Among those NPOs that work in villages (n=469), on an average 55% of their overall work is located in villages (as against metropolitan areas, urban and semi-rural areas)
- 70% NPOs among the larger ones (INR 5 Cr+) work in the metropolitan cities, while only about 50% of the smaller NPOs work in metropolitan cities

Size-wise distribution of geographies of work (n=515)

Expenditure in INR (2021 - 22)	Upto 1 Cr (n=316)	1 Cr - 5 Cr (n=115)	Above 5 Cr (n=84)	Total (n=515)
Metropolitan Cities (Mumbai, Delhi, Bengaluru, Kolkata, Chennai, Ahmedabad, Hyderabad, Pune)	52%	45%	70%	53%
Other Urban	71%	62%	77%	70%
Villages / Rural	93%	84%	92%	91%
Semi Rural	77%	66%	71%	72%

Table: GSI • Source: Nonprofit Sector Study 2022 - 23 • Created with Datawrapper

Activities

Engagement of Nonprofits with SDGs (n=643)

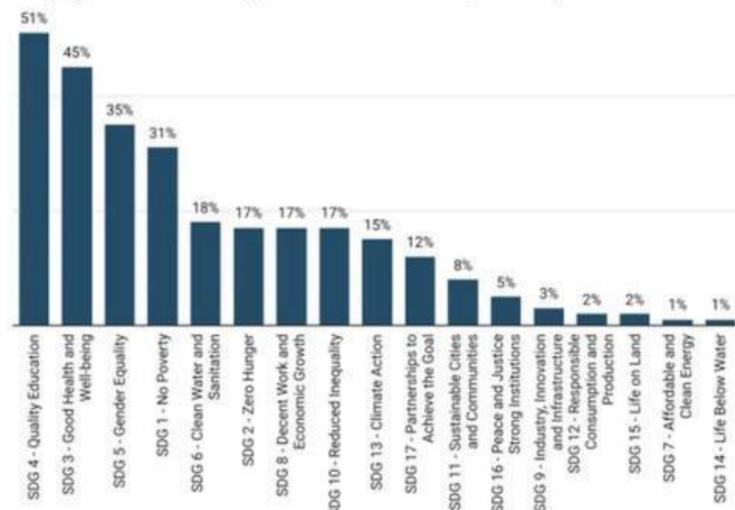


Chart: GSI • Source: Nonprofit Sector Study 2022 - 23 • Created with Datawrapper

Majority of NPOs serve the needy

- **94% reported at least two-thirds of organisation's activities covered the under-served, less-privileged or people living in regions recording lower performance in development priorities (n=739)**
- **SDGs:** NPOs work towards meeting all SDGs, predominantly work on Quality Education, Good Health, No Poverty and Gender Equality (n=643)

Social Services, Education and Livelihoods are major thematic areas as per ICNPO (International Classification of NPOs):

- 70% work in Social services
59% in Education and Research
56% in Employment, Community development and Housing
27% in Health
24% in Environment
(n=515)
- Comparatively smaller NPOs work in Social Services, while larger NPOs work in Education and Health
(n=515)

More than half of NPOs work with women, children, youth, students, girl children, rural poor, SHGs, and NPOs (n=594)

Size-wise distribution of ICNPO classification (n=515)

Expenditure in INR (2021 - 22)	Upto 1 Cr (n=316)	1 Cr - 5 Cr (n=115)	Above 5 Cr (n=84)	Total (n=515)
1 Culture and recreation	17%	8%	4%	13%
2 Education and research	54%	65%	69%	59%
3 Health	24%	26%	39%	27%
4 Social services	72%	70%	64%	70%
5 Environment	26%	22%	17%	24%
6 Development and housing	53%	60%	61%	56%
7 Law, advocacy and politics	7%	8%	1%	6%
8 Philanthropic intermediaries and voluntarism promotion	3%	2%	6%	3%
9 International	0%	0%	0%	0%
10 Religion	0%	0%	0%	0%
11 Business and professional associations, unions	4%	0%	0%	2%
12 Not elsewhere classified (N.E.C.)	2%	5%	5%	3%

Table: GSI • Source: Nonprofit Sector Study 2022 - 23 • Created with Datawrapper

Organizational attributes – size & age

Half of the NPOs are tiny by size of spending, most NPOs are younger than 30 years

- 62 percent of NPOs are small (n=565) with annual expenditure less than INR1 Cr
- Half the NPOs in our sample have less than 20 employees (median) and half the NPOs have less than 30 volunteers (median) for 2021 – 22 (n=489)
- In our sample, 87% of NPOs were registered after 1990, as per the MOSPI report (2012), 79% of traced societies were registered post 1990
- Over half of the organizations in our sample were registered within the last 20 years (n=851)
- GuideStar India’s database of 12000+ organisations reflects a similar distribution

Distribution of NPOs by Annual Expenditure (n=565)

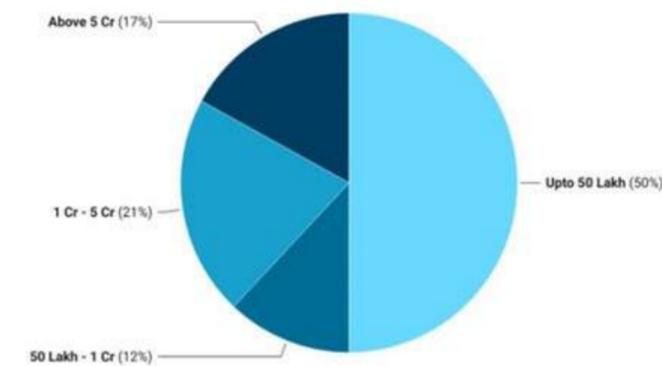


Chart: GSI • Source: Nonprofit Sector Study 2022 - 23 • Created with Datawrapper

Age-wise distribution of Nonprofits in the sample (n=851)

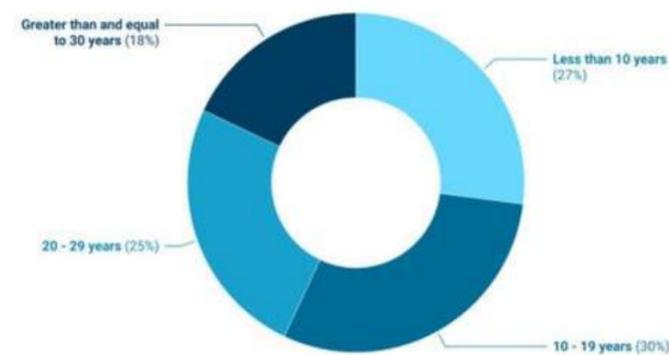


Chart: GSI • Source: Nonprofit Sector Study 2022 - 23 • Created with Datawrapper

NPO distribution by statutory registrations & promoters

Registration Type of Organisations (n=515)

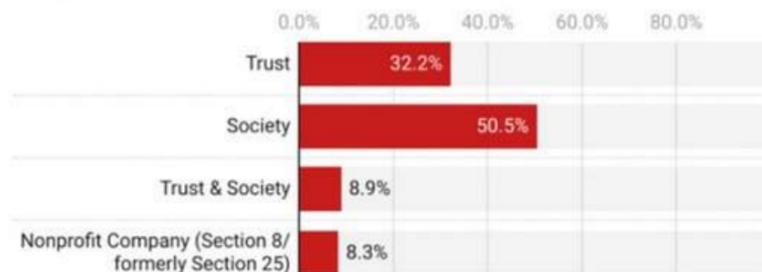


Chart: GSI • Source: Nonprofit Sector Study 2022 - 23 • Created with Datawrapper

50% NPOs' annual spending <INR 50 L

Majority of the NPOs in the sample are tax exempt

- 51% of the NPOs in our sample are registered as a Society, 32% as a Trust, 9% as a Trust & Society and 8% as a Not-for-Profit Company (n=515)
- 9% are promoted by governments, 6% by professional/trade associations and 3% each are promoted by businesses, religious organisations and families. **72% are independent** (n=515)
- 92% NPOs report 12A/ 12AA/ 12AB as their tax exemption type with only 1% reporting 10(23C) as the tax exemption type (n=515)
- 87% NPOs reported that their tax exemption certificate was valid, 84% NPOs reported that their tax deduction certificate was active (n=515)

Note: as per IT (Nov 2022)

IT Exempt NPOs: 252,000

NPOs Qualified for giving IT Deductions under 80G: 164,000

As per MOSP Report, April 2012:

NPO Population 37 Lakh upto March 2008, traced 6.94 Lakh in 2011-12.

Mid and large sized NPOs have more access to foreign funding

- NPOs with an FCRA registration constitute 54% of our sample (n=565)
- More than 78% of the mid-sized and large organisations in our sample have reported having an FCRA registration and only 37% of small organisations have access to foreign funding

FCRA Registered 16,508 as of Dec 2022

Percentage of Nonprofits with FCRA (n=565)

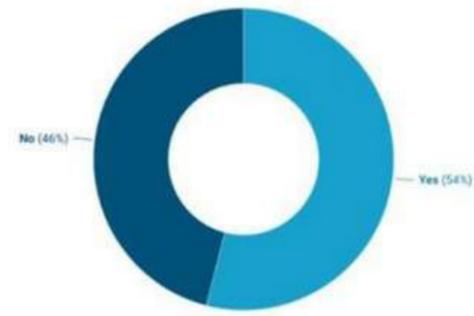


Chart: GSI - Source: Nonprofit Sector Study, 2022 - 23 - Created with Datawrapper

Systems of accountability

Size-wise distribution of data source for topmost activity of NPOs tracking numbers reached (independently verifiable) (n=432)

Expenditure in INR (2021 - 22)	Up to 1 Cr (n=249)	1 Cr - 5 Cr (n=106)	Above 5 Cr (n=77)	Total (n=432)
External evaluations	4%	2%	0%	3%
Internal assessments	39%	42%	43%	40%
Project Reports	43%	38%	34%	40%
Others	14%	19%	23%	17%

Table: GSI - Source: Nonprofit Sector Study 2022-23 - Created with Datawrapper

Most NPOs practice transparency

- 77% NPOs reported that their audited accounts are prepared, audited and publicly available (n=515)
- 84% NPOs reported availability of governing body details on their websites/ public sources (n=515)

90% track at least one of their top 3 activities

- 65% of NPOs in our sample reported that they track directly reached numbers for all of their top three activities (n=515)
- 25% of NPOs in our sample reported that they track at least one but not all of their top three activities (n=515)
- 84% NPOs who track directly reached numbers for at least one of their activities, reported that their reach numbers can be verified independently (n=460)

Employment generation and socio-economic upliftment by NPOs

NPOs contribute to lifting-up local socio-economic life

- 47% NPOs report that they are the biggest source of formal employment in more than half of the local geographies (n=515)
- 55% NPOs report that more than half of their economic activity is with local business and vendors (n=515)
- 67% NPOs report that more than half of their personnel (employees and volunteers) are from communities (geographical or beneficiary community) that they work with (n=515)

NPOs create quality livelihoods and develop skills among more disadvantaged sections of the society

- The socio-economic status of employees has changed from fair to good and very good after five years of working with NPOs (n=515)
- On an average, skills of their employees have moved from fair to very good and excellent after five years of working with NPOs (n=515)
- 64% of NPO employees are the sole breadwinners in their respective families (n=515)

Skills and Economic Status of Employees in NPOs (n= 515)

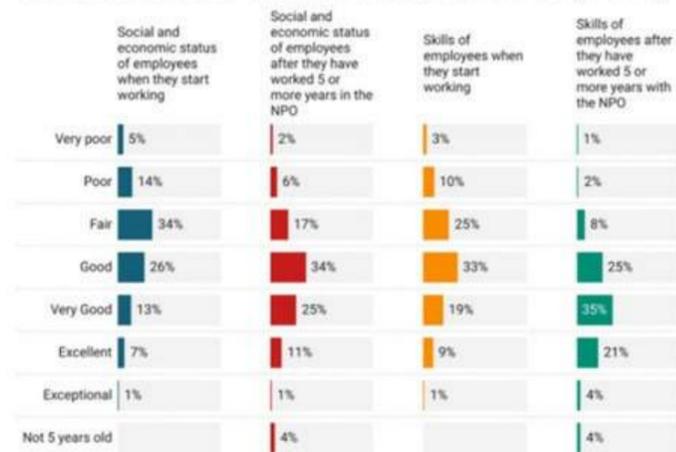


Chart: GSI - Source: Nonprofit Sector Study, 2022 - 23 - Created with Datawrapper

85% of full-time people engaged are volunteers

Survey finding matches MOSPI data of 2007-08

Sources of funding

Size-wise distribution of top Sources of Funds for Nonprofits (n=515)

Expenditure in INR (2021 - 22)	Upto 1 Cr (n=316)	1 Cr - 5 Cr (n=115)	Above 5 Cr (n=84)	Total (n=515)
Self generated Revenue	6%	12%	11%	12%
Retail individual donations	11%	13%	19%	16%
Grants from High Net worth individuals	9%	18%	17%	12%
Grants from Indian Foundations	28%	36%	30%	37%
Grants from International Foundations	22%	44%	36%	34%
CSR	24%	38%	36%	40%
Grants from Indian Government	24%	30%	17%	24%
Grants from Foreign Governments, UN, multi-, bi-lateral grants	7%	19%	12%	11%
In-kind Contributions	21%	15%	4%	15%
Others	9%	8%	1%	7%

Table: GSI - Source: Nonprofit Sector Study, 2022 - 23 - Created with Datawrapper

CSR top source, retail fundraising potential unexploited

- NPOs in our sample (n=515) record CSR as their top source of funding, followed by grants from Indian foundations and grants from International foundations
- Medium and large organisations have reported grants from CSR programs and foundations as their predominant sources of revenue
- Smaller organisations more frequently reported relying on self-generated revenue and individual donations

Five-year and Fifteen-year trends

NPOs have demonstrated agility & resilience

- In the last five years, 58% NPOs have reported that their annual expenditure increased (n=515)
- 56% reported that the number of funding sources has increased in the last five years (n=515)
- 87% NPOs reported that their reach numbers have increased in the last five years (n=460)
- **Among respondent NPOs that were registered on or before 2007, more than half have reported an increase in their ability to achieve impact and to collaborate with other organizations (n=312)**

Impact of COVID-19 (n=515)

NPOs were affected in terms of financial and human resources

- Roughly 65% of the small and mid-size NPOs reported some form of losses due to COVID-19
- Roughly half of the NPOs (48%) reported attrition in the aftermath of the pandemic
- 50% NPOs (n=460) reported that their reach numbers increased and 32% reported that these in fact decreased during and after the pandemic.

Size-wise distribution of loss of Income to NPOs due to COVID-19 (n=515)

Expenditure in INR (2021 - 22)	Upto 1 Cr (n=316)	1 Cr - 5 Cr (n=115)	Above 5 Cr (n=84)	Total (n=515)
No loss at all	35%	37%	43%	37%
Loss Upto Rs10 Lac	38%	12%	6%	27%
Loss of Rs10 Lac - Rs1 Cr	24%	39%	19%	27%
Loss of Rs1 Cr - Rs10 Cr	2%	11%	26%	8%
Loss of More than Rs10 Cr	1%	1%	4%	1%

Table: GSI • Source: Nonprofit Sector Study 2022 - 23 • Created with Datawrapper

Partnerships & collaborations

NPOs collaborate extensively with all stakeholders

- Comparatively, greater number of medium and larger NPOs have collaborations with governments and businesses
- Regardless of size, most NPOs work amongst themselves, and are active within networks.
- NPOs collaborate with government across themes (education, health, livelihoods and governance)

88% NPOs
strengthen
government
institutions

Size-wise distribution of Nonprofits engaged in collaborations (n=515)

Expenditure in INR (2021 - 22)	Upto 1 Cr (n=316)	1 Cr - 5 Cr (n=115)	Above 5 Cr (n=84)	Total (n=515)
Collaboration with Governments	61%	77%	83%	68%
Collaboration with Businesses	42%	65%	74%	52%
Collaboration with NPOs	77%	90%	94%	83%
Participation in networks	61%	74%	85%	68%

Table: GSI • Source: Nonprofit Sector Study 2022 - 23 • Created with Datawrapper

Size-wise distribution of nonprofits that worked directly with government institutions in the last five years (n=515)

Expenditure in INR (2021 - 22)	Upto 1 Cr (n=316)	1 Cr - 5 Cr (n=115)	Above 5 Cr (n=84)	Total (n=515)
Government Schools	77%	71%	71%	75%
Anganwadis/ Creches	60%	51%	54%	57%
Primary Health Centers/ Health & Wellness Centers	63%	55%	56%	60%
Self-Help Groups	72%	62%	60%	68%
Panchayats	72%	70%	58%	69%
Ward Committees / Municipality Corporations	60%	57%	43%	56%
None	35%	30%	36%	34%

Table: GSI • Source: Nonprofit Sector Study 2022 - 23 • Created with Datawrapper

Reasons for collaboration of NPOs with Government, Businesses and Nonprofits (n = 515)

Reasons for collaboration	With Government	With Businesses	With other nonprofits
Funding (excluding Fundraising platform)	35%	37%	36%
Improving Service Delivery	35%	19%	47%
Advocacy	23%	10%	31%
Capacity Building of Staff of your NGO	22%	22%	48%
Knowledge Production	17%	15%	39%
Achieving Scale for Impact	26%	19%	38%
Donor Driven/Encouragement	8%	15%	16%
Others	7%	3%	6%

Table: GSI • Source: Nonprofit Sector Study 2022 - 23 • Created with Datawrapper

Motivations for Collaboration

- With governments
 - Funding (35%)
 - Improving service delivery (35%)
 - Achieving scale for impact (26%)
- With businesses
 - Funding (37%)
 - Capacity building of staff (19%)
- With other NPOs
 - Capacity building of staff (48%)
 - Improving service delivery (46%)
 - Knowledge production (39%)
 - Achieving scale for impact (38%)

How NPOs contribute to Sarkaar, Bazaar & Samaaj¹

 <p>Sarkaar</p>	 <p>Bazaar</p>	 <p>Samaaj</p>
<ul style="list-style-type: none"> 88% NPOs in the sample work with government institutions, strengthening their programmes in education, health, livelihoods and governance. NPOs of all sizes work with the government 	<ul style="list-style-type: none"> More than half the NPOs use local businesses and vendors for their economic activity Mid and large sized NPOs work more extensively with businesses Businesses partner with NPOs for fulfilling their CSR mandate 	<ul style="list-style-type: none"> NPOs are a significant source of local employment -64% of NPO employees are sole breadwinners in their families NPOs reach the last and least served Just 500 odd NPOs in the sample engaged 3 lakh volunteers, employed 60,000 people and mobilised 64 lakh people thru SHGs

Recommendations for key stakeholder groups

NPOs

- Benchmark against sector data pertaining to their size, geography and thematic areas
- Quote the NPO Sector Survey data to establish where gaps exist
- NPOs in sectors like Education, Health, Employment and Social Services, with tangible outputs and outcomes could gather evidence of work along common indicators, which intermediaries could aggregate and report sector-wise
- Older organisations should widely and consistently share their impact reports, stories and learning
- Make community participation visible, report community feedback and make more voices from communities heard
- Speak openly about challenges, interventions and learnings to improve the understanding of the sector realities

Government Regulators and Ecosystem Builders

- 88% of NPOs work to strengthen government programmes across themes. 50% of NPOs work locally, improve socio-economic life of workers and engage local businesses. Strengthening NPOs could accelerate local area development.
- Apply the 80/20 Pareto principle for statutory reporting and compliance
- Prioritise charity reforms in five states that account for half of the NPOs in the country
- Design capacity building support and services based on age and size of NPOs
- Support the sector in developing impact assessment standards (definitions, indicators and processes) and enable aggregation and reporting
- Foster collaborative effort through enabling regulation for collective fundraising and programme implementation through CSR, onward grant-making, etc.

Funders

- Support ecosystem development for impact measurement and reporting: development of definitions and standards and support adoption of logical frameworks and standard indicators
- 62% NPOs are less than Rs1 Cr & 57% less than 20 years old- they could be given simple tools for tracking output and reporting for aggregation of sector's contribution
- Support capacity building and foster collaboration for scaling impact, while harnessing benefits of localised interventions
- Support creating resources for the sector in the following 10 languages would help cover 80% of NPOs: English, Hindi, Bengali, Gujarati, Kannada, Malayalam, Marathi, Odiya, Tamil and Telugu
- Use the findings of this report in decision making
- Support this study to be repeated every 2 years to support longitudinal analysis for sharper insights

NPOs help the government, businesses and citizens reach the last and the least served!

For additional information

(This document is only a hand-out of the presentation based on Chapters 3 and 4 of the detailed report titled India's Million Missions)

To download the report,

Scan the QR or visit:

https://guidestarindia.org/India_CS0_Reports.aspx

For comments/ questions/ collaborations, write to:

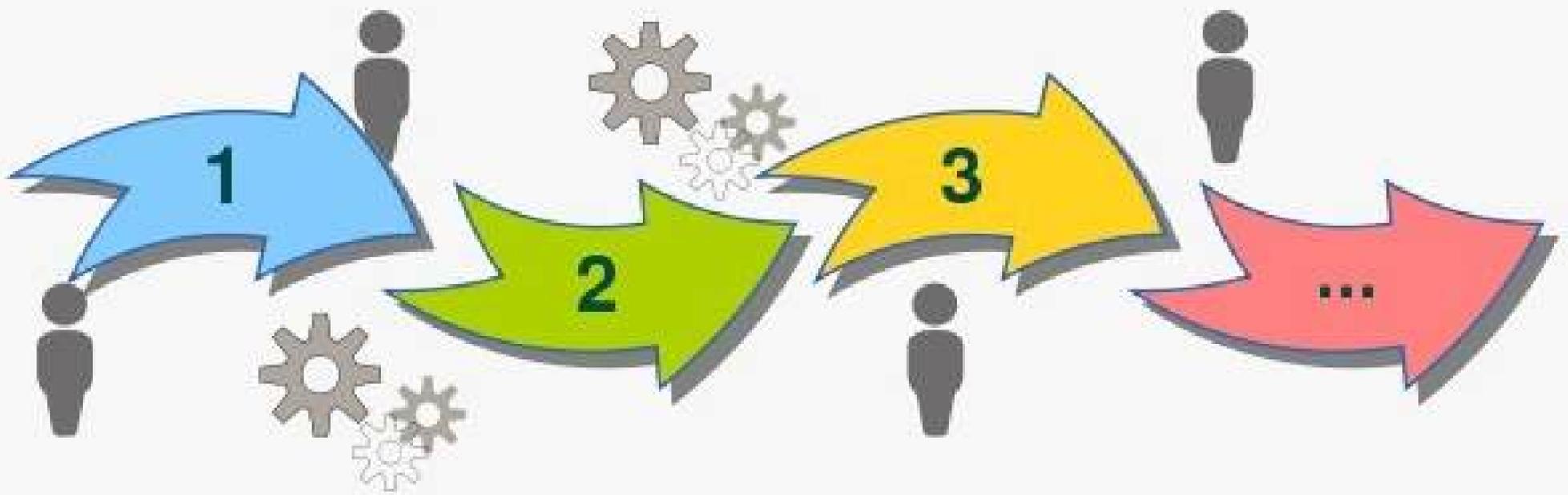
nposurvey@guidestarindia.org



To participate in Phase 2 of the NPO survey: <https://www.surveymonkey.com/r/NPOsurvey2022-23>

¹ Choice of words inspired by Samaaj (Society), Sarkaar (State), Bazaar (Markets)– A citizen-first approach, author Rohini Nilekani

PROCEDURE FOR REGISTRATION OF A MEMBER WITH ICMA SAO



ICMAI Social Auditors Organisation
(A Section 8 Company promoted by The Institute of Cost Accountants of India)

PROCEDURE FOR REGISTRATION OF A MEMBER WITH ICMAI SAO

Eligibility Criteria for Social Auditor

A. An Individual if he

- holds the required qualification and experience;
- have attended a course at the National Institute of Securities Markets (NISM) and received a certificate of completion after successfully passing the course examination; and
- is registered with a Self-Regulatory Organisation (SRO) [e.g., ICMAI Social Auditors Organization]

B. A Firm/Institution that has partners/employees who meet with the criteria for being a social auditor and has a track record of minimum three years for conducting social impact assessment.

Eligibility Qualification & Experience for Social Auditor

- Post-graduates from universities recognized by the University Grants Commission (UGC) with a minimum of 3 years of experience in the development sector, or
- Graduates from universities recognized by the UGC with a minimum of 6 years of experience in the development sector, or
- Cost and management Accountant, Chartered Accountant, or Company Secretary holding valid Certificate of Practice.

No individual shall be eligible to be registered as a Social Auditor if he:-

- is a minor;
- is not a person resident in India;
- does not have the qualification and experience specified in SEBI notification;
- has been convicted by any competent court for an offence punishable with imprisonment for a term exceeding six months or for an offence involving moral turpitude, and a period of five years has not elapsed from the date of expiry of the sentence.

Provided that if a person has been convicted of any offence and sentenced in respect thereof to imprisonment for a period of seven years or more, he shall not be eligible to be registered;

- he is an undischarged insolvent, or has applied to be adjudicated as an insolvent;
- he has been declared to be of unsound mind; or
- he is not a fit and proper person.

Explanation: For determining whether an individual is fit and proper ICMAI SAO may take account of any consideration as it deems fit, including but not limited to the following criteria-

- integrity, reputation and character,
- absence of convictions and restraint orders, and
- competence,

Procedure for Enrolment as a member

Entry of Application : Entry for application received for registration of social auditor is to be made in a register maintained by ICMAI SAO followed by stamping of application mentioning date of reception it.

Acknowledgement of Application : Every application received is to be acknowledged to the applicant within 7 working days of its receipt via mail.

Internal Verification of application along with fee and supporting documents as mentioned in enrolment Form.

- Registered form – duly completed
- Passport-size photo
- Copy of proof of residence
- Self – attested copy of Aadhar card, PAN card and Passport (if available).

- Copies of documents in support of educational qualifications, professional Qualification, Experience, and Social Auditors examination
- Copy of proof of payment of Admission/Enrolment Fee and Annual Fee
- Copy of Self Declaration, the format of the same is annexed with the Enrolment form (Annexure – 1).

Verifying Qualification and Experience

Copies of documents demonstrating qualification, employment and practice as –

- Cost and Management Accountant enrolled with the Institute of Cost Accountants of India.
- Company Secretary enrolled with the Institute of Company Secretaries of India,
- Chartered Accountant enrolled with the Institute of Chartered Accountants of India and/or empaneled with the Comptroller & Auditor General of India.
- Graduate / Post-Graduate from universities recognized by the University Grants Commission (UGC).
- Requisite experience of minimum of 3/6 years in the development sector
- Copies of certificate of employment from the employer(s), specifying the period of such employment.

Before registering a person as its Member ICMAI SAO is required to verify the following:

- Whether the applicant holds requisite qualifications & experience as indicated above. Whether the applicant holds valid
- Certificate of Practice if he is a Cost and management Accountant, Chartered Accountant, or Company Secretary. Whether the applicant have attended a course at the National Institute of Securities Markets (NISM) and received a certificate of completion
- after successfully passing the course examination. Whether the individual/firm/institution holds requisite social sector experience in providing assurance of non-financial information. (e.g., nutrition, education, health, water & sanitation, energy conservation, environment and climate change, etc.) Whether the firm/institution has required number of partners/employees meeting the criteria for being social auditor and has a track record of minimum three years for conducting social impact assessment. Whether any disciplinary proceedings are pending, or any disciplinary action has been taken at any time in the preceding three years
- against the professional member or firm/institution by the ICMAI, ICAI, ICSI, any SRO or any other regulator. Whether ICMAI, ICAI, ICSI, any SRO or any other regulator has initiated any criminal proceeding against the professional member or
- firm/institution and is pending for disposal? Whether the professional member/ person had an unblemished service with the last employer if he was in employment? The applicant must submit a conduct certificate from his last employer.
-
-

External Verification

The applicants' particulars are sent to verifying authority (ICMAI / ICAI/ICSI) to verify the following:

- Confirmation on verification of Membership Number provided by the Member
- Date of enrolment as member
- Number of years as member, whether he is continued to be member since his enrolment
- Information on whether the Member has ever been found Guilty of Misconduct. If his Membership was removed.
- COP Date
- COP Number
- Firm No.
- Firm Name
- Years of Experience in Practice
- Whether the member is in full-time practice or part-time practice?
- Whether the Member has been in Practice continuously? If not, please mention the block of period during which the Member was in practice and the block of period for which Practice was discontinued

(e) After examination of the application, ICMAI SAO shall give an opportunity to the applicant to remove the deficiencies, if any, in the application. (f) ICMAI SAO may require an applicant to submit additional documents, information, or clarification that it deems fit, within reasonable time. (g) ICMAI SAO may reject an application if the applicant does not satisfy the criteria for registration or does not remove the deficiencies or submit additional documents or information to its satisfaction, for reasons recorded in writing. (h) The rejection of the application shall be communicated to the applicant stating the reasons for such rejection, within thirty days of the receipt of the application, excluding the time given for removing the deficiencies or presenting additional documents or clarification by the ICMAI SAO, as the case may be. (i) The acceptance of the application shall be communicated to the applicant, along with the registration number.

Issuance of Certificate of Enrolment/Registration

Upon successful registration, Applicant is issued certificate of registration within 7 working days from the date of registration with ICMAI SAO (through courier and via mail)

DETAILS REGARDING SOCIAL AUDITORS EXAMINATION CONDUCTED BY NISM



ICMAI Social Auditors Organisation
(A Section 8 Company promoted by The Institute of Cost Accountants of India)

Social Auditors Certification Examination

The examination aims to create a pool of social auditors who would assess the impact of social interventions of various social enterprises who raise funds through the Social Stock Exchange platform.

Examination Objectives

On successful completion of the examination the candidate should:

- Know the basics of social auditing, Code of conduct of Social Auditors.
- Understand the general concepts related to social stock exchange, social audit and social impact assessment.
- Know the Social Impact Reporting disclosures and regulations.

Assessment Structure

The examination consists of 85 multiple-choice and 3 case-based/caselet questions (each case having 5 questions) totaling to 100 marks. The assessment structure is as follows:

Multiple Choice Questions[85 questions of 1 mark each]

85*1 = 85

Case-based Questions[3 cases (each cases with 5 questions of 1 mark each)]

3*5*1 = 15

The examination should be completed in 2 hours. The passing score for the examination is 60. There shall be negative marking of 25 percent of the marks assigned to a question.

Test Details

Name of Module: NISM Series XXIII: Social Auditors Certification Examination

~ 85 multiple-choice and 3 case-based/caselet questions (each case having 5 questions) totaling to 100 marks.

*** Negative marking – 25% of the marks assigned to the question.**

+ Payment Gateway Charges extra.

Passing Certificate will be issued only to those candidates who have furnished/ updated their Income Tax Permanent Account Number (PAN) in their registration details.

Frequently Asked Questions (Social Auditors)

1. Who can take NISM-Series-XXIII: Social Auditors Certification Examination?

The following persons can take NISM-Series-XXIII: Social Auditors Certification Examination:

- Individuals registered as social auditors
- Employees of Social audit firm
- Students pursuing social work and interested in gaining more knowledge in Social Audit

2. How can I register for NISM-Series-XXIII: Social Auditors Certification Examination?

Candidates can register at <https://certifications.nism.ac.in/nismaol/>

After successful registration, candidates may select a test centre, date and time slot of their choice on the Test Administrator website. Candidates are required to follow further instructions available on the Test Administrator websites.

3. What is the fee structure?

The fees for “NISM-Series-VIII: Social Auditors Certification Examination” is Rupees One Thousand Five Hundred only (Rs. 1500/-) plus applicable GST.

4. What is the assessment structure?

The examination will be of 100 marks, will have 100 questions, and should be completed in 2 hours. There will be negative marking of 25% of the marks assigned to a question. The passing score for the examination is 60%.

5. Is there a study material available for preparing for this examination?

You will receive a soft copy of the workbook/study material after enrolment for the examination. For non-receipt of a soft copy of the workbook/study material, you may contact NISM at: certification@nism.ac.in

6. Do I have to pay for the study material?

You will receive a soft copy of the workbook/study material free of cost after enrolment for the examination. Candidate can buy printed workbooks from Taxmann Publications Private Ltd.

Visit <https://www.taxmann.com/bookstore> to place your orders for NISM workbooks.

If you prefer to order by phone, please call your nearest store directly to place your order. Click here to get the details of your nearest store.

7. I have passed NISM Social Auditors Certification Examination, when will I receive the certificate?

Only the candidates who have produced their Income Tax Permanent Account Number (PAN) during registration would receive the NISM Certificate within two weeks of appearing for the examination.

Candidates who produced other identification proofs would not receive the NISM certificate. They would receive only the temporary mark sheet at the end of the examination.

8. I have not provided my PAN information at the time of taking the certification examination. How do I obtain the certificate?

Candidates who have not provided their PAN information during registration may upload the same from their candidate dashboard from NISM's portal. After receiving and verifying PAN details, the candidate will receive the certificate from the Test Administrator they have registered with. No additional payments are necessary for obtaining the certificate.

9. I have passed NISM Social Auditors Certification Examination and also provided PAN details, however I have not received a certificate. Whom should I contact?

For non-receipt of certificate contact: certification@nism.ac.in

10. What is the validity period of the certificate?

The certificate will be valid for 3 years from the date of the examination.

11. Can I request for re-evaluation of NISM Certification Examinations?

NISM Policy on Re-evaluation of performance of candidates appearing for Certification Examination and resolution of doubts about the questions forming part of such examination, if any.

“No re-evaluation of the performance of candidates appearing for Certification Examination conducted by NISM (Mandatory & Non-Mandatory examination) is permitted since the assessment of answers, with respect to Certification Examinations questions which are in the nature of the selection of only one correct answer from multiple choices offered, is carried out in an objective manner by in-built system architecture created for Certification Examination without any scope for human intervention and subjectivity element. Also, considering the examination structure, no disclosure of the questions and/or answers is permitted as it will violate the confidentiality of the question bank, which is the essence of the examination.

In view of the above, no communication regarding re-evaluation, etc. will be entertained/serviced by NISM.” Subject to the above request/s received from a candidate for resolution of doubts about a question forming part of such examination will be considered as per the following policy.

(1) Candidate’s request/s will be considered only when he/she specifically mentions particular question or two which he/she thinks contain errors. Claims/ to recheck more than two questions shall normally be not permitted unless substantive material is provided by the candidate as to why he/she considers errors in such questions. In no case, claim/s to recheck all the questions appeared in his/her question paper shall be entertained.

(2) No request/s to disclose/discuss question/s and/or their answers shall be entertained as disclosure of the question/s will violate the essence of the question bank viz. breach the confidentiality/secretcy of the Question bank.

(3) Only those request/s made on-the-spot (before leaving the test center) will be considered for verification.

(4) When a valid request is received from a candidate at the Test Centre, it shall be forwarded by the respective TA to NISM. NISM’s team will look into claim relating to the contested question/s to verify whether there is a mistake in the question or answer. If it is prima facie found that the question or answer contains a mistake, no score will be computed and consequently no score card will be issued then at the Test Centre.

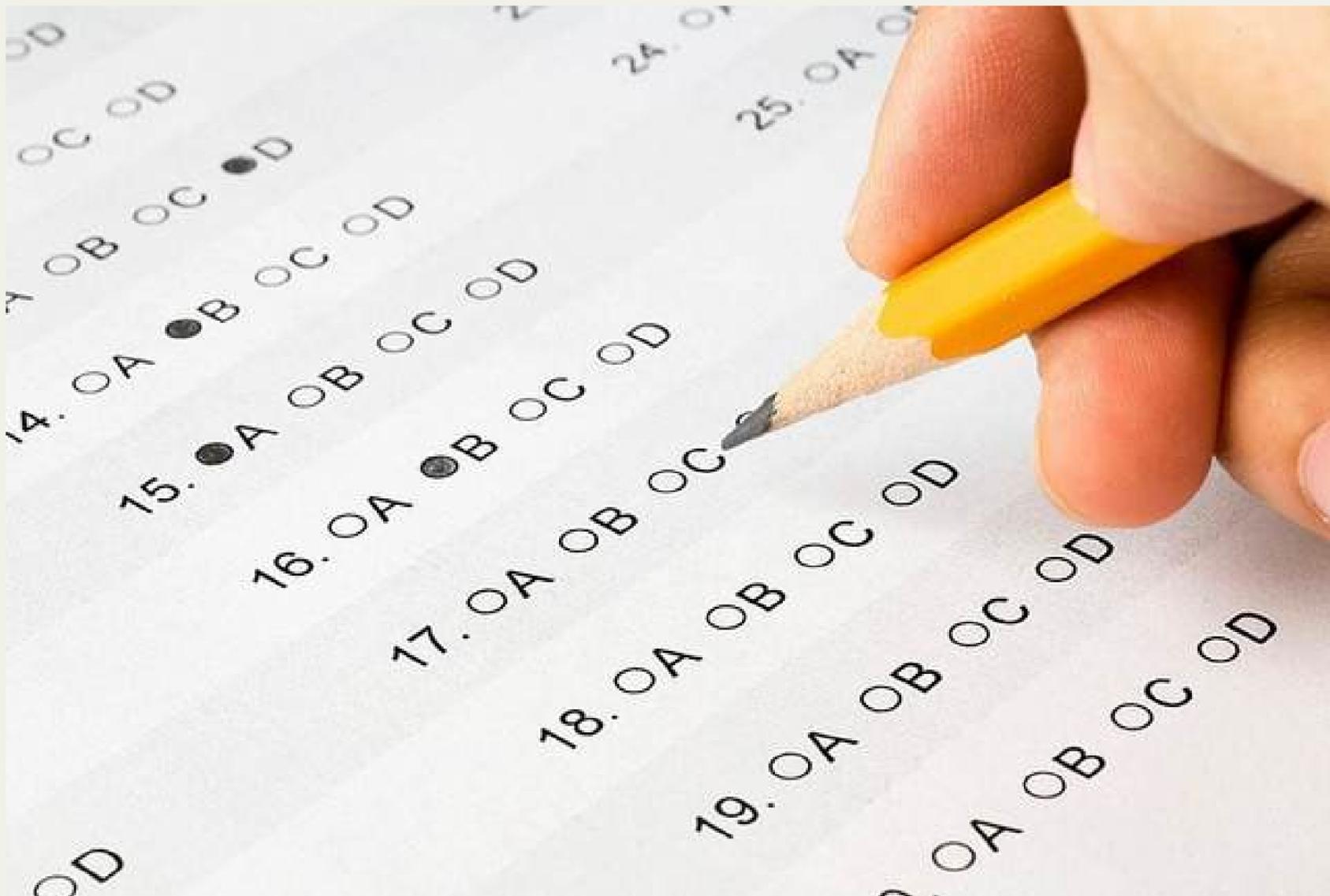
(5) Such matter will then be escalated with the question / answer to the Committee with the details of the nature of error, the correct version of the question or contested correct answer and system recognized correct answer. The Committee, after due diligence and proper scrutiny, will arrive at a conclusion whether the claim made by a candidate in relation to a question or answer is right. Such conclusion will be recorded in writing and put up for formal approval to the authority of NISM.

(6) Score computation, kept in abeyance as per point 4, shall be carried based on the approval as per point – 5. Such score card will then be issued to the candidate by TA/NISM.

(7) Even though NISM endeavours best efforts and has put in place a robust mechanism to review its question bank intermittently, attributable to continuous changes taking place emanating from dynamics of the market, encompassing products and features, and its regulatory framework, there is a possibility of inadvertently escaping some updation and/or escaping indirect impact on some question/answer. Therefore, to take care of such eventuality, the above process of entertaining request from the candidate in relation to the question/answer is put in place.

(8) The above policy and process will be subject to review from time to time and shall be binding and final in relation to any claim and/or matter when disposed off with the approval of the authority of NISM.

MULTIPLE CHOICE QUESTIONS



ICMAI Social Auditors Organisation
(A Section 8 Company promoted by The Institute of Cost Accountants of India)

MULTIPLE CHOICE QUESTIONS

Compiled & Contributed by CMA Jacky Singh
(Cost Accountant , Social Auditor , Surveyor & Loss Assessor, Arbitrator)

Question 1 - Stock exchanges, depositories and clearing corporations are collectively referred to as-

- A. Market Infrastructure Institutions (MIIs)
- B. Custodians
- C. KYC Registration Agencies
- D. Asset Management companies

Answer - A. Market Infrastructure Institutions (MIIs)

Question 2 - Sustainable Development Goals (SDGs) by Member states of the United Nations adopted the 2030 Agenda for Sustainable Goals : A. In the year 2014 B. In the year 2015 C. In the year 2016 D. In the year 2017

Answer - B. In the year 2015

Question 3 - The order conditions are broadly classified into _____.

- A. Four
- B. Two
- C. Three
- D. Five

Answer - C. Three

Question 4 - In stop order, the Trading Member to place an order enters prices _____.

- A. Trigger price and Limit/market price.
- B. Price decided by the Broker
- C. Decided by the market its own
- D. All of the above

Answer - A. Trigger price and Limit/market price.

Question 5 - A For Profit Enterprise (FPE) shall not seek registration or listing with Social Stock Exchange, unless which among the following is “False”? A. It is registered as a Company under the provisions of Companies Act, 2013 B. Erstwhile provisions of Companies Act, 1956 as the case may be C. Complies with the requirements in terms of SEBI Regulations for issuance and listing of equity or debt securities. D. It is registered with other stock exchange

Answer - D. It is registered with other stock exchange

Question 6 - What happens to ZCZP in the investee's book upon B6 maturity?

- A. These bonds are re-issued upon maturity
- B. These bonds are written off in investee's book
- C. These bonds are converted into equity and investee receive equity in lieu of bonds
- D. These bonds are redeemed with a premium

Answer - B. These bonds are written off in investee's book

Question 7 - Social Enterprise shall have At least 67% of the immediately preceding _____ of the expenditure has been incurred for providing the eligible activities to members of the target population. A. Year B. 3-year average C. 2-years D. 5-year average

Answer - B. 3-year average

Question 8 - Social Impact Funds (SIFS) issued by AIFS can invest of their investable funds in unlisted securities or partnership interest of social ventures or in units of social ventures or in securities of social enterprises. A. 25% B. 50% C. 75% D. 90%

Answer - C. 75%

Question 9 - Which of the below mentioned statements are correct?

- I. On-site audit activities are performed at the location of the auditee.
 - II. Remote audit activities are performed at any place other than the location of the auditee, regardless of the distance
- A. Only II
 - B. Both I and II
 - C. Neither I or II
 - D. Only I

Answer - B. Both I and II

Question 10 - Which of the below mentioned methods, procedural and organizational arrangements covering environmental, economic and social indicators are incorporated to capture data at similar points in time?

MULTIPLE CHOICE QUESTIONS

Compiled & Contributed by CMA Jacky Singh
(Cost Accountant , Social Auditor , Surveyor & Loss Assessor, Arbitrator)

- A. Outsourcing model
- B. Partnership model
- C. Fully
- D. Do-It-Yourself model

Answer - C. Fully

Question 11 - Which of the following is limitation of outsourcing model Bro of for social impact assessment? 1) Smaller organisations which are dependent on donations and grants lack resources to hire external agencies for conducting SIA. 2) Organisation implementing social intervention has more clarity and connection with the community and pre and post social intervention situation A. Both 1 and 2 B. Only 1 C. Only 2 D. Neither 1 nor 2 Answer - A. Both 1 and 2

Question 12 - For Impact Score card surveys, minimum numbers of respondents per organization to be covered are? A. 20 B. 200 C. 100 D. 50 Answer - B. 200

Question 13 - What is the scope of work for a Social Auditor managing 2/2 the audit programme?

- A. Define objectives, scope and criteria for each individual audit
- B. Select audit methods based on the location of the auditor
- C. Conducting interviews with auditee personnel
- D. None of the above

Answer - A. Define objectives, scope and criteria for each individual audit

Question 14 - Which of the following is not covered under principles of UN Global Compact?

- A. Human Rights
- B. Social welfare
- C. Labour
- D. Anti-Corruption

Answer - B. Social welfare

Question 15 - Which of the following aspects can be excluded by the Social Auditor while deciding sample for data collection? A. Dental issues faced by the children before implementation of the Smile Project. B. Health records maintained by the schools C. Changes in the sale of dental products. D. Expressiveness of children in answering data collection tools Answer - C. Changes in the sale of dental products.

Question 16 - Governing Council of Social Sector Exchange need to be constituted _____ .

- A. Prior to Seeking 'In-Principle Approval
- B. Prior to Seeking Final approval from SEBI
- C. After Getting Final Approval of SEBI
- D. Before announcing functioning of Social Stock Exchange

Answer - B. Prior to Seeking Final approval from SEBI

Question 17 - Name the Act under which registration is mandatory for 017 receiving donations from foreign:

- A. Foreign Donations (Regulation) Act
- B. Foreign Contributions (Regulation) Act
- C. Foreign Charities (Regulation) Act
- D. Foreign Currency Regulation Act

Answer - B. Foreign Contributions (Regulation) Act

Question 18 - It gives the Central Government the regulatory jurisdiction 317 over (a) stock exchanges through a process of recognition and continued supervision, (b) contracts in securities, and (c) listing of securities on stock exchanges.

- A. SEBI (Stock Broker) Regulation, 1992
- B. SEBI Act 1992
- C. Depositories Act, 1996
- D. Securities Contracts Regulation Act (SCRA 1956)

Answer - D. Securities Contracts Regulation Act (SCRA 1956)



ICMAI Social Auditors Organisation

(A Section 8 Company promoted by The Institute of Cost Accountants of India)

GUIDELINES FOR ARTICLES

The articles sent for publication in the journal “The Social Auditor” should conform to the following parameters, which are crucial in selection of the article for publication:

- The article should be original, i.e. Not Published/ broadcasted/hosted elsewhere including any website.
- A declaration in this regard should be submitted to ICMAI-SAO in writing at the time of submission of article.
- The article should be topical and should discuss a matter of current interest to the professionals/readers.
- It should preferably expose the readers to new knowledge area and discuss a new or innovative idea that the professionals/readers should be aware of.
- The length of the article should not exceed 2500-3000 words.
- The article should also have an executive summary of around 100 words.
- The article should contain headings, which should be clear, short, catchy and interesting.
- The authors must provide the list of references, if any at the end of article.
- A brief profile of the author, e-mail ID, postal address and contact numbers and declaration regarding the originality of the article as mentioned above should be enclosed along with the article.
- In case the article is found not suitable for publication, the same shall be communicated to the members, by e-mail.

Disclaimer:

The information contained in this document is intended for informational purposes only and does not constitute legal opinion, advice or any advertisement. This document is not intended to address the circumstances of any particular individual or corporate body. Readers should not act on the information provided herein without appropriate professional advice after a thorough examination of the facts and circumstances of a particular situation. There can be no assurance that the judicial/quasi-judicial authorities may not take a position contrary to the views mentioned herein.



ICMAI Social Auditors Organisation

(A Section 8 Company promoted by The Institute of Cost Accountants of India)

REGISTERED OFFICE

**The Institute of Cost Accountants of India
CMA Bhawan 3, Institutional Area, Lodhi Road, New Delhi - 110003**

CORPORATE OFFICE

**The Institute of Cost Accountants of India
CMA Bhawan, C-42, Sector-62, Noida, Uttar Pradesh - 201309**

CONTACT US

Email - ceo@saoicmai.in , sao@saoicmai.in

www.saoicmai.in