

# Green Returns

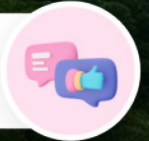
## Investor Perspectives on ESG Startups Investments

*"Dive into the flourishing world of ESG startups - where investors are reaping "Green Returns" with a positive environmental and social impact."*

Environmental



Social



Governance



# ESG TRENDS

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# What is ESG?

ESG stands for Environmental, Social, and Governance. It's a widely adopted framework that facilitates a comprehensive analysis of a company's sustainability practices.

## ENVIROMENT

This dimension evaluates a company's impact on the natural world. It considers factors like climate change mitigation strategies, resource management practices (including energy and water), and pollution control efforts.



## SOCIAL

This aspect focuses on a company's relationships with its stakeholders, encompassing employees, customers, suppliers, and the broader community. Key considerations include labour practices, diversity and inclusion initiatives, and social impact programs.



## Governance

This component assesses a company's leadership structure, internal controls, and overall transparency. It delves into aspects like executive compensation, board composition, risk management practices, and adherence to ethical business conduct.



# Aligning ESG with SDGs: Paving the Way to Sustainability

The 2030 Agenda for Sustainable Development, adopted by all United Nations Member States in 2015, provides a shared blueprint for peace and prosperity for people and the planet, now and into the future. At its heart are the 17 Sustainable Development Goals (SDGs), which are an urgent call for action by all countries – developed and developing – in a global partnership. They recognize that ending poverty and other deprivations must go hand-in-hand with strategies that improve health and education, reduce inequality, and spur economic growth – all while tackling climate change and working to preserve our oceans and forests.

## 17 PARTNERSHIP FOR THE GOALS

### SUSTAINABLE DEVELOPMENT GOALS



These Sustainable Development Goals (SDGs) act as a catalyst for widespread adoption of Environmental, Social, and Governance (ESG) considerations in investment decisions. By providing a shared framework focused on specific goals like addressing climate change and promoting social responsibility, SDGs make ESG investing more relatable and justifiable for corporations. This, in turn, anchors a wider acceptance of ESG principles within the corporate world, leading to a more granular (detailed) integration of these factors into investment strategies.

<sup>1</sup><https://sdgs.un.org/goals>

# Government Initiatives in ESG Investing

## Global Landscape

According to Bloomberg Intelligence, the global total of assets under management in ESG-related funds is around \$41 trillion. That's up from \$22.8 trillion in 2016. Bloomberg Intelligence also estimates that ESG-related investments will surpass \$50 trillion by 2025.<sup>3</sup>

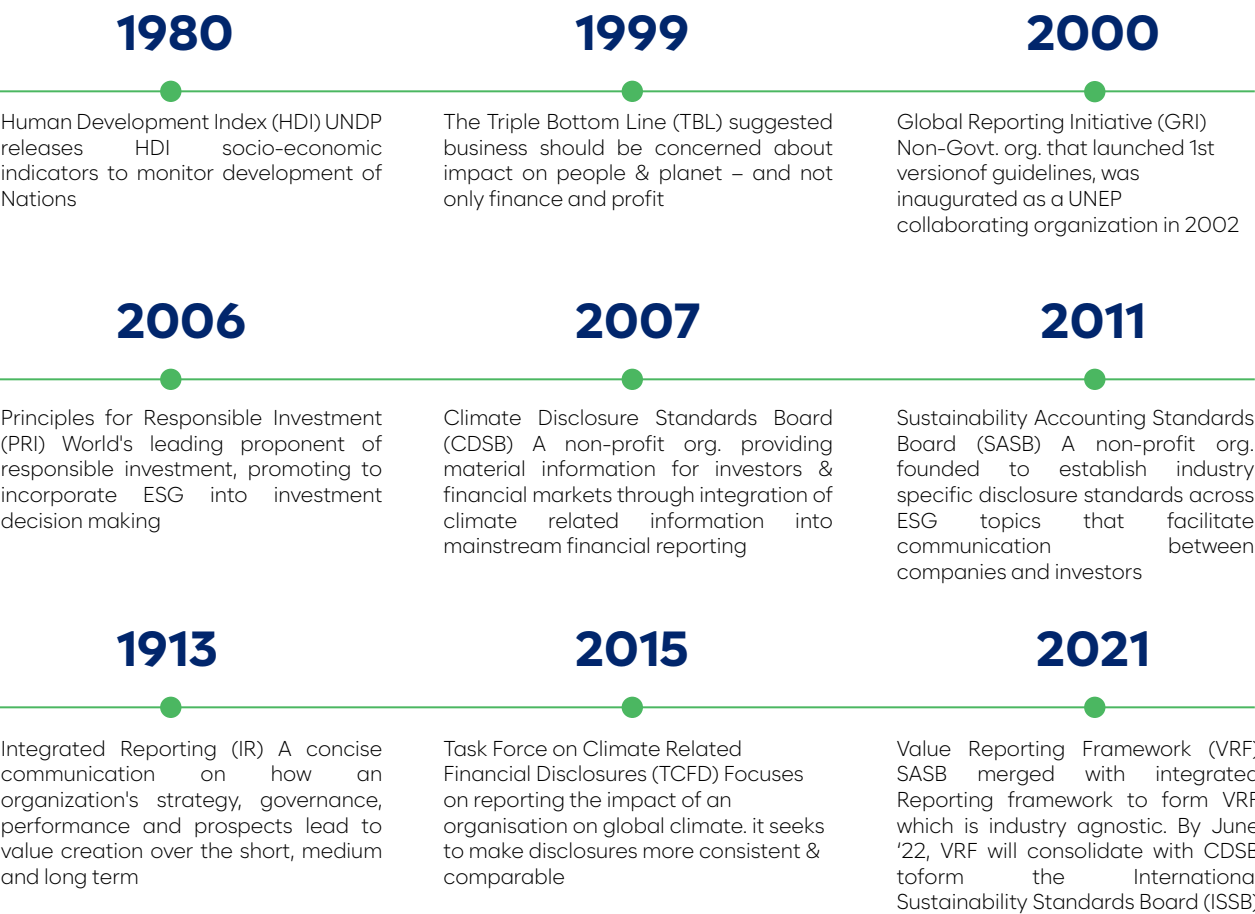


Figure 4: Global Evolution of Disclosure metrics for Sustainable Businesses<sup>4</sup>

<sup>3</sup> <https://investingintheweb.com/education/esg-investing-statistics/>  
<sup>4</sup> <https://reports.3one4capital.com/3one4+Capital+ESG+Report+2024.pdf>

## Key Highlights

- United States:**  
President Joe Biden has prioritized climate change and environmental justice. The U.S. is witnessing a shift towards mandatory ESG reporting.
- European Union (EU):**  
The EU has been at the forefront of creating global sustainability policies. Notable regulations include:
  - Sustainable FDisclosure Regulation (SFDR):**  
This regulation enhances transparency by requiring companies to disclose ESG risks in their portfolios.
  - EU Taxonomy:**  
It defines criteria for environmentally sustainable activities.
  - International Sustainability Standards Board (ISSB):**  
International Sustainability Standards Board (ISSB): The IFRS Foundation plans to establish the ISSB, which will guide companies on sustainability disclosures to supplement financial statements<sup>2</sup>.

Indian Landscape

As of March 2022, the assets value of ESG-focused funds in India rose to around 124 billion Indian rupees. This was a stark rise from over 22 billion U.S. dollars in 2019.<sup>5</sup>

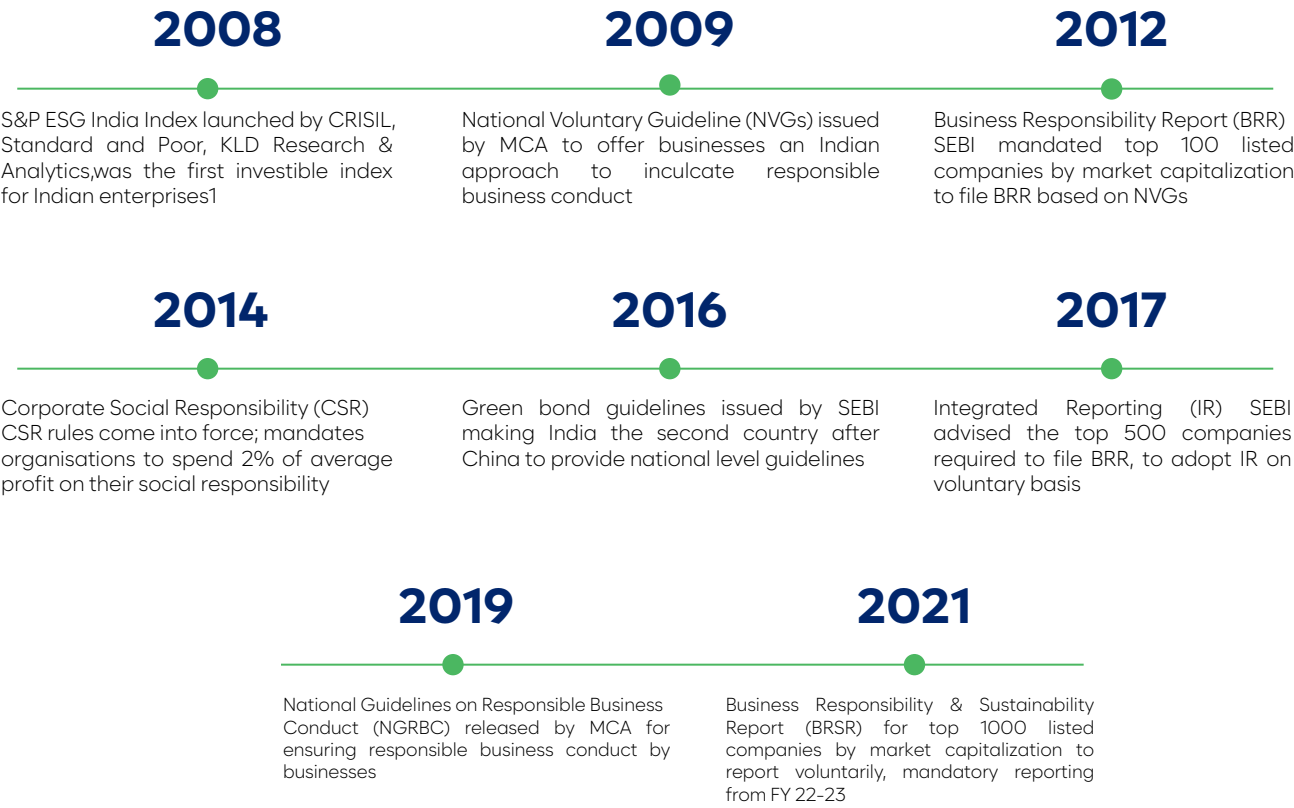


Figure 5: Evolution of ESG Reporting Frameworks in India.<sup>6</sup>

<sup>5</sup>India: assets of ESG focused funds 2022 | Statista  
<sup>6</sup><https://reports.3one4capital.com/3one4+Capital+ESG+Report+2024.pdf>  
<sup>7</sup>India transforms its ESG landscape to be future-ready (indiatimes.com)  
<sup>8</sup>Embracing the rise of ESG investing in India: A sustainable future (indiatimes.com)

Key Highlights

- In the Paris Agreement of the United Nations Climate Change Conference in 2021, India's Prime Minister committed to achieving net zero emissions by 2070.<sup>7</sup>
- BRSR Initiative:**  
The Securities and Exchange Board of India (SEBI) also made ESG disclosures mandatory for the top 1,000 listed companies under its Business Responsibility and Sustainability Reporting (BRSR) initiative.
  - CSR Mandate:**  
India has a defined mandate for Corporate Social Responsibility (CSR) for companies with Rs 5 billion net worth, Rs.10 billion turnover, or Rs.50 million net profit. These companies must spend at least 2% of their net profits on CSR endeavours and disclose their ESG profiles to attract capital from global ESG investors and financiers.
  - Green Finance:**  
Post-COVID, India's banking and non-banking sectors have urgently switched focus to sustainable development. The RBI joined the Network for Greening the Financial System (NGFS) to contribute to global green finance and drive India's financial sector towards policy formation and climatic risk resilience development. The bank also focused on stress testing, strategy building, capacity building, and risk governance structure to address climate risk issues. Moreover, the State Bank of India formulated ESG-compliant lending policies for companies, pushing them to act more responsibly.
  - Green Bonds and Sustainability-Linked Instruments:**  
India has witnessed a surge in green bond issuances, which are used to fund environmentally friendly projects. Additionally, sustainability-linked instruments, where the interest rates are linked to the issuer's ESG performance, are gaining popularity, incentivizing companies to improve their sustainability practices.<sup>8</sup>

# Concept of ESG Investing

In today's world, investors are considering more than just financial factors when making investment decisions to balance the risk and reward ratio of an investment. This is where ESG investing plays a vital role. The concept of ESG investing includes considering Environmental, Social and Governance factors alongside traditional financial metrics. It allows the investors to align their portfolios with sustainability goals while potentially achieving strong returns. This approach is gaining traction as investors recognize the link between responsible businesses and long-term success.

## Investor Motivations: Beyond the Bottom Line

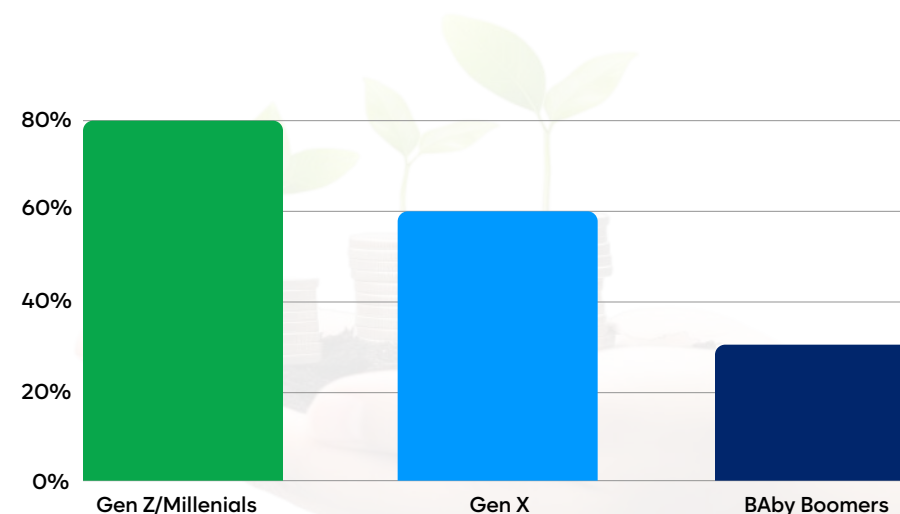
The growth of impact investing is driven in large part by a shift in investor motivations. Traditionally, financial returns were the primary concern. Today, many investors, particularly millennials and Gen Z, seek to align their investments with their values.

Roughly 80% of Gen Z/Millennial, 60% of Gen X, and just 30% of Baby Boomer investors said that their investment firm should influence companies' ESG policies or practices even if doing so decreases the value of their investment, according to a Stanford University study.

An average investor in their twenties or thirties is willing to lose between 6 percent and 10 percent of their investments in the interest of companies improving their environmental practices, while the average baby boomer was unwilling to lose anything, according to the same study. The study found young wealthy investors to be the primary drivers of ESG investing.<sup>10</sup>

## Investors focusing on ESG issues

By age group; rounded percentage



Source: stanford University

<sup>10</sup>ESG Investing Statistics, Data & Trends (2024) (investingintheweb.com)

# Impact Investing

Impact investing allows investors to address pressing social and environmental challenges while still generating competitive financial returns. As per the EY survey, the International Valuation Standards Council (IVSC) recognizes ESG as 'pre-financial' information rather than 'non-financial' information.<sup>11</sup> This dual focus on positive impact and financial viability is fuelling the rise of impact investing. Furthermore, growing evidence suggests strong ESG practices can lead to superior financial performance, further incentivizing investors to consider the impact alongside financial metrics. This convergence of financial gain with social and environmental good is a key driver of the expanding impact investing landscape.

## 1. Long-term Sustainability

The urgency of climate change, social inequality, and resource depletion is becoming increasingly evident. Investors recognize that these factors pose significant risks to traditional investment strategies. ESG considerations help identify companies well-positioned for long-term success in a sustainable future.

## 2. Potential for Competitive Advantage

Companies with strong ESG practices are often better equipped to manage environmental regulations, social unrest, and resource scarcity. They also tend to attract and retain top talent, build stronger customer relationships, and gain a competitive edge in the marketplace.

## 3. Enhanced innovation

Companies that focus on ESG issues are often more innovative and develop products and services that meet the needs of a sustainability-conscious consumer base.



<sup>11</sup>[https://www.ey.com/en\\_in/climate-change-sustainability-services/why-esg-is-gaining-importance-in-pre-ipo-process](https://www.ey.com/en_in/climate-change-sustainability-services/why-esg-is-gaining-importance-in-pre-ipo-process)

# Riding the Green Wave: ESG Startup Sectors in India

Indian startups are playing an active role in enhancing the eco-friendly aspects of the startup landscape with strong ESG initiatives. By giving preference to environmental sustainability, advocating for social responsibility, and following ethical governance standards, these startups are not just cutting down on their environmental footprint but also encouraging an inclusive and conscientious business culture. This not only boosts their financial performance but also serves as a commendable model for the wider startup community.

**ESG Startup Sectors:-** A deep dive into some of the most promising sectors within the Indian ESG startup space.

## 1. Renewable Energy

India's fervent commitment to renewable energy presents a compelling opportunity for startups in the ESG space.

Here's a closer look at the factors driving this sector's appeal:

### 1. Soaring Energy Needs:

India's burgeoning population and economic growth have led to a constant rise in energy demand. Renewable energy offers a sustainable solution to meet this demand without relying on fossil fuels and their associated environmental consequences.

### 2. Government Push:

The Indian government has set ambitious targets for renewable energy capacity addition. Policies like net metering, subsidies for solar panel installations, and renewable purchase obligations (RPOs) for electricity distribution companies create a supportive environment for startups.

### 3. Focus on Diversification:

The government is keen on diversifying India's renewable energy mix beyond solar power. This opens doors for startups developing solutions in wind energy, biomass, geothermal, and small hydro projects.

## Sub Sectors



- **Solar Energy** - This sector captures energy from the sun and converts it into electricity using photovoltaic (PV) cells or concentrated solar power (CSP) systems. Solar energy is one of the fastest-growing renewable energy sectors due to its decreasing costs and increasing efficiency.



- **Wind Energy** - Wind energy harnesses the power of wind to generate electricity using wind turbines. Wind farms are typically located in open areas with strong and consistent winds.



- **Hydro Energy** - This sector uses the energy of moving water to generate electricity. Hydropower dams use turbines to convert the potential energy of falling water into electricity.



- **Geothermal Energy** - Geothermal energy utilizes heat from the Earth's core to generate electricity. Geothermal power plants tap into underground steam reservoirs to power turbines.



- **Bio Energy** - Bioenergy refers to the use of organic matter, such as plant material or animal waste, to produce electricity or transportation fuels. Examples include biofuels, biogas, and biomass power plants.



- **Ocean Energy** - This sector captures energy from waves, tides, and currents in oceans and seas to generate electricity. Ocean energy technologies are still under development but hold promising potential for the future.

## 2. Clean Technology

Rapid urbanization and industrialization in India have brought immense economic growth, but also significant challenges related to pollution control and waste management. This is where clean technology startups step in, offering innovative solutions to address these pressing issues.

Here's a closer look at the factors driving this sector's appeal:

### 1. Urgent Need for Solutions:

India's major cities consistently rank among the most polluted in the world. Additionally, overflowing landfills and improper waste disposal pose a serious threat to public health and the environment. Clean technology startups offer promising solutions for tackling these issues.

### 2. Government Regulations:

The government is enforcing stricter environmental regulations, mandating pollution control measures for industries and promoting sustainable waste management practices. This creates a market for clean technology solutions that help businesses comply with regulations.

### 3. Focus on Sustainability:

There's a growing awareness of the need for sustainable practices across sectors. Businesses and individuals are increasingly seeking out clean technologies to reduce their environmental footprint.

### Sub Sectors



- **Energy Efficiency** - This sector captures energy from waves, tides, and currents in oceans and seas to generate electricity. Ocean energy technologies are still under development but hold promising potential for the future.



- **Green Transportation [EV]** - This sector focuses on developing and implementing sustainable transportation solutions that minimize environmental impact. Examples include electric vehicles (EVs), hybrid cars, biofuels, and improved public transportation systems.



- **Water & Wastewater Treatment** - Clean technologies in this sector aim to improve water quality and resource management. This includes efficient water treatment plants, desalination technologies to convert saltwater to freshwater, and wastewater treatment systems that minimize pollution.



- **Air Quality Control** - This sector deals with technologies that capture, reduce, or eliminate air pollutants. Examples include pollution control equipment for industries, emission reduction technologies for vehicles, and renewable energy sources that replace fossil fuels, thereby reducing air pollution.



- **Solid Waste Management** - Clean technologies in this sector focus on minimizing waste generation, promoting recycling, and composting, and developing innovative waste-to-energy solutions. This can involve improved waste collection systems, advanced recycling facilities, and technologies that convert waste into usable resources.

<sup>1</sup>[https://www.ey.com/en\\_in/climate-change-sustainability-services/why-esg-is-gaining-importance-in-pre-ipo-process](https://www.ey.com/en_in/climate-change-sustainability-services/why-esg-is-gaining-importance-in-pre-ipo-process)

### 3. Sustainable Agriculture

With a growing population and a focus on improving farmer incomes and ensuring food security, India presents a vast opportunity for startups in sustainable agriculture. This sector offers innovative solutions to address the challenges of conventional agriculture while promoting environmental responsibility.

Here's a closer look at the factors driving this sector's appeal:

#### 1. Challenges of Conventional Agriculture:

Overreliance on chemical fertilizers and pesticides has degraded soil health, polluted water sources, and impacted biodiversity. Additionally, water scarcity poses a significant threat to agricultural productivity.

#### 2. Demand for Sustainable Practices:

Consumers are increasingly seeking out organic and sustainably produced food. This creates a market for farmers who adopt sustainable practices and for startups that can help them do so.

#### 3. Government Initiatives:

The Indian government is promoting sustainable agriculture through various schemes and programs. This includes initiatives to support organic farming, soil health improvement, and micro-irrigation techniques.

#### Sub Sectors



- **Organic Farming** - This sector avoids synthetic pesticides, fertilizers, and genetically modified organisms (GMOs). It relies on crop rotation, cover crops, natural fertilizers like compost and manure, and beneficial insects for pest control.



- **Agroforestry** - This integrates trees and shrubs into agricultural landscapes. It provides benefits like soil conservation, improved water quality, habitat for beneficial insects, and additional income from tree products like fruits, nuts, or timber.



- **Conservation Tillage** - This sector minimizes soil disturbance during planting and cultivation. It can involve techniques like no-till farming, reduced tillage, and cover cropping. These practices improve soil health, reduce erosion, and conserve moisture.



- **Integrated Pest Management** - This approach focuses on managing pest populations with a combination of natural methods and minimal use of pesticides. It utilizes techniques like monitoring pest populations, using beneficial insects, and applying targeted control measures only when necessary.



- **Precision Agriculture** - This sector utilizes technology to optimize resource use and minimize environmental impact. It can involve tools like GPS for guided machinery, soil sensors to monitor moisture levels, and variable rate application of fertilizers and pesticides based on specific needs of different areas of the field.



- **Urban Agriculture** - This sector involves growing food in urban areas, such as rooftop gardens, vertical farms, and community gardens. It promotes local food production, reduces transportation emissions associated with food delivery, and can create green spaces in urban environments.

<sup>11</sup>[https://www.ey.com/en\\_in/climate-change-sustainability-services/why-esg-is-gaining-importance-in-pre-ipo-process](https://www.ey.com/en_in/climate-change-sustainability-services/why-esg-is-gaining-importance-in-pre-ipo-process)

## 4. Circular Economy Solutions

This exciting sector offers fertile ground for ESG startups with innovative solutions for product reuse, recycling, and waste reduction.

Here's a closer look at the factors driving this sector's appeal:

### 1. Resource Scarcity and Waste Crisis:

India faces limitations in key resources like water, raw materials, and land. Meanwhile, overflowing landfills and improper waste disposal pose environmental and health concerns. A circular economy offers a sustainable approach by keeping resources in use for longer and minimizing waste generation.

### 2. Economic Opportunities:

The circular economy presents immense economic potential. By extending the lifespan of products and materials, new jobs can be created in areas like repair, refurbishment, and remanufacturing. Additionally, reduced reliance on virgin resources can lead to cost savings.

### 3. Government Support:

The Indian government recognizes the importance of a circular economy and is actively promoting initiatives like waste segregation at source, Extended Producer Responsibility (EPR) schemes, and encouraging eco-design principles. This creates a supportive environment for startups offering circular economy solutions.

## Sub Sectors



- **Product Design & Lifecycle Management** - This sector focuses on designing products that are easy to disassemble, repair, reuse, or remanufacture. It considers the entire lifecycle of a product, from sourcing materials to end-of-life options.



- **Repair & Remanufacture** - This sector extends the life of products by repairing them or remanufacturing them into like-new condition. Remanufacturing involves replacing worn-out components while retaining the core structure of the product.



- **Refurbishing & Upcycling** - This sector involves restoring used products to a usable state or transforming them into new products with a different function. Upcycling is a specific type of refurbishing that creates products with a higher perceived value than the original item.



- **Resource Recovery & Recycling** - This sector recovers valuable materials from waste streams for use in new products. Recycling can involve mechanical recycling (breaking down materials into usable components) or chemical recycling (converting materials into new chemical compounds).



- **Reverse Logistics & Take-Back Programs** - This sector manages the collection and return of used products to be repaired, remanufactured, or recycled. Take-back programs are initiatives by manufacturers or retailers to collect used products for proper end-of-life management.



- **Sustainable Consumption & Behaviour Change** - This sector focuses on promoting consumer behaviour that reduces waste and supports circular practices. This can involve educating consumers about product lifecycles, encouraging responsible purchasing decisions, and raising awareness about the benefits of circularity.



- **Biomimicry & Sustainable Materials** - This sector draws inspiration from nature to design products and materials that are biodegradable, compostable, or easily recyclable. It promotes the use of renewable resources and minimizes reliance on virgin materials.

## 5. ESG Reporting and Compliance

ESG Reporting as a sector focuses on providing services that help businesses comply with ESG standards, enhance sustainability, and improve governance practices. Startups in this space are addressing the growing demand for responsible business practices by offering innovative solutions that integrate ESG considerations into the core operations of companies.

Here's a closer look at the factors driving this sector's appeal:

### 1. Regulatory Pressure:

Governments and regulatory bodies worldwide are imposing stricter ESG regulations, requiring companies to disclose their ESG practices and performance. Compliance with these regulations necessitates robust ESG reporting and monitoring systems, driving demand for specialized ESG services.

### 2. Investor Demand:

Investors are increasingly prioritizing ESG criteria in their investment decisions, seeking companies that demonstrate strong ESG performance. Startups providing ESG services help businesses meet investor expectations and attract capital.

### 3. Corporate Reputation:

Companies recognize the importance of maintaining a positive reputation by adopting responsible practices. ESG services aid in building and maintaining a company's reputation through transparent and accountable operations.

### Sub Sectors



- **ESG Reporting and Analytics** - Tools and platforms that facilitate the collection, analysis, and reporting of ESG data. Services include software for sustainability reporting, data analytics, and performance tracking.



- **ESG Consulting** - and implementing ESG strategies. Includes sustainability assessments, risk management, and strategy development.



- **Environmental Solutions** - Services focused on reducing environmental impact, such as carbon footprint reduction waste management, and renewable energy solutions. Includes consulting on environmental compliance and sustainability initiatives.



- **Social Impact Services** - Solutions that address social issues, including diversity and inclusion, community engagement, and human rights. Services include social impact assessments and stakeholder engagement strategies.



- **Governance Advisory** - Services that enhance corporate governance practices, such as board diversity, ethical conduct, and transparency. Includes governance risk assessments and policy development.



- **ESG Technology Solutions** - Innovative technologies that support ESG initiatives, including AI-driven analytics, blockchain for transparency, and IoT for environmental monitoring. These technologies streamline ESG data management and enhance reporting accuracy.

# Investment Landscape

Investment Split by Value (in USD million) and Volume (number of deals) across climate-tech sub-sectors in India between 2020 and 2022.<sup>12</sup>

| Year                                | 2020           |              | 2021           |              | 2022           |              |
|-------------------------------------|----------------|--------------|----------------|--------------|----------------|--------------|
| Sector                              | Value (Mn USD) | No. of Deals | Value (Mn USD) | No. of Deals | Value (Mn USD) | No. of Deals |
| Energy                              | 45             | 15           | 60             | 14           | 60             | 14           |
| Green Transportation (EV)           | 83             | 27           | 457            | 39           | 457            | 39           |
| Environmental & Natural Resources   | 1              | 2            | 18             | 10           | 18             | 10           |
| Waste Management & Circular Economy | 54             | 10           | 8              | 5            | 8              | 5            |
| Sustainable Agriculture             | 6              | 8            | 12             | 6            | 12             | 6            |
| Other                               | 5              | 6            | 40             | 10           | 28             | 14           |

| Year       | 2020           |              | 2021           |              | 2022           |              |
|------------|----------------|--------------|----------------|--------------|----------------|--------------|
| Stage      | Value (Mn USD) | No. of Deals | Value (Mn USD) | No. of Deals | Value (Mn USD) | No. of Deals |
| Seed       | 59             | 45           | 94             | 55           | 165            | 93           |
| Series A   | 60             | 15           | 155            | 20           | 239            | 20           |
| Series B   | 12             | 3            | 57             | 5            | 317            | 8            |
| Last Stage | 64             | 5            | 288            | 4            | 493            | 9            |



In terms of number of deals, there is a strong skew towards early-stage rounds and small ticket sizes; the **median deal size is about USD 2 million**. In terms of value, however, a small number of Series B and later stage rounds, accounting for less than **15% of the deals**, make for more than **60% of the total equity infusion**.<sup>13</sup>

## Major players in the space



<sup>12/13</sup> <https://reports.3one4capital.com/3one4+Capital+ESG+Report+2024.pdf>

# Major Players in ESG Investing

## India

When we look at the most active investors in the seed stage, Blume Ventures tops the chart followed by 100X.VC, Sangam Ventures, Good Capital, Soonicorn Ventures, among others. Early-stage round was led by Tiger Global, Sequoia Capital and Peak XV Partners.<sup>15</sup>

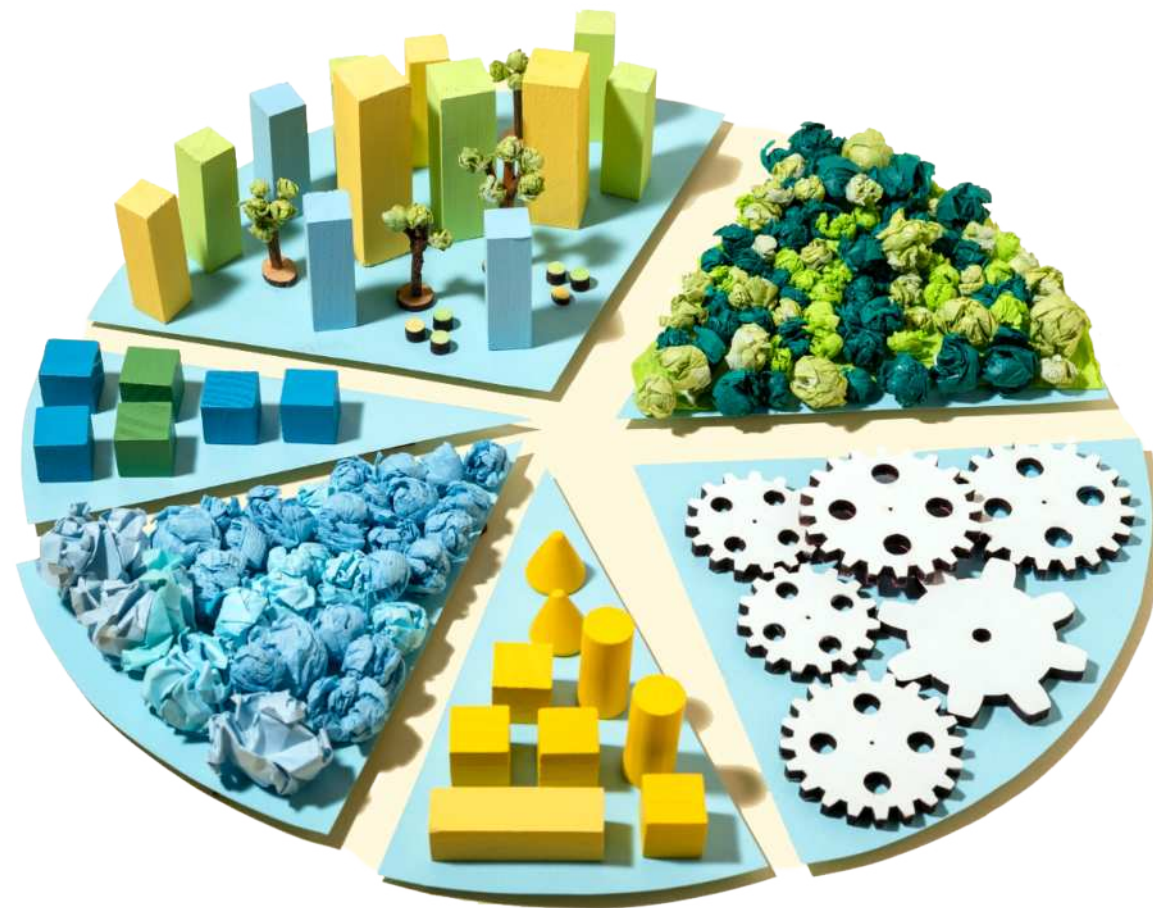
### Other major funds investing in climate-tech startups-



## Global



2150



<sup>15</sup> <https://reports.3one4capital.com/3one4+Capital+ESG+Report+2024.pdf>

# Unlocking Investor Interest: Key Areas for Startups to Navigate ESG Discussions

## 01 Integration of ESG into Business Strategy

- Startups should clearly articulate how ESG principles are integrated into their core business strategy. This includes demonstrating alignment between ESG practices and the company's mission, vision, and long-term objectives.
- Investors want to see that ESG considerations are not just an afterthought but are deeply embedded in the company's DNA, influencing decision-making at all levels.

## 02 Environmental Sustainability

- Startups need to address their environmental impact by discussing measures to reduce carbon emissions, energy consumption, and waste generation.
- Highlighting initiatives such as the use of renewable energy, sustainable sourcing practices, and eco-friendly packaging can demonstrate a commitment to environmental sustainability.

## 03 Social Responsibility

- Startups should discuss their approach to social responsibility, including efforts to promote diversity, equity, and inclusion within the organization.
- Investors are interested in hearing about initiatives related to employee welfare, such as fair wages, healthcare benefits, and work-life balance policies.
- Community engagement and philanthropic activities can also be important aspects to highlight, showcasing the company's contribution to society beyond its commercial interests.

## 04 Governance Practices

- Disclosing information about the composition of the board of directors, executive compensation structure, and risk management frameworks can enhance investor confidence in the company's governance structure.

## 05 Risk Management

- Discussing how ESG factors are integrated into risk management processes can provide reassurance to investors about the company's ability to identify and mitigate potential risks.
- This includes addressing risks related to regulatory compliance, supply chain disruptions, reputational damage, and social unrest.

## 06 Measurement and Reporting

- Startups should provide clear metrics and key performance indicators (KPIs) to measure their progress on ESG goals.
- Transparent reporting on ESG performance, including the use of frameworks such as the Global Reporting Initiative (GRI) or Sustainability Accounting Standards Board (SASB), can enhance credibility and comparability.

## 07 Long-Term Value Creation

- Emphasize how ESG initiatives contribute to long-term value creation for the company and its stakeholders.
- Investors are increasingly focused on sustainability as a driver of competitive advantage, innovation, and resilience in the face of evolving market dynamics and societal challenges.

## 08 Stakeholder Engagement

- Discussing how the company engages with stakeholders, including employees, customers, suppliers, investors, and communities, can demonstrate a commitment to responsible business practices.
- Soliciting feedback and actively listening to stakeholders' concerns can help startups identify emerging ESG issues and adapt their strategies accordingly.

# Navigating the ESG Startup Landscape: Challenges and Opportunities for Investors

As investors increasingly prioritize environmental, social, and governance (ESG) considerations in their investment decisions, the startup space presents both challenges and opportunities in this evolving landscape. Understanding the unique dynamics of ESG startups is essential for investors seeking to capitalize on this burgeoning market.

## Challenges

### 01 Lack of Standardized ESG Data and Metrics

- One of the primary challenges facing investors in the ESG startup space is the lack of standardized data and metrics for evaluating ESG performance. Unlike established companies with robust reporting frameworks, startups often struggle to provide comprehensive ESG disclosures, making it difficult for investors to assess their sustainability credentials accurately.

### 02 Regulatory Uncertainty Surrounding ESG Practices

- Regulatory frameworks governing ESG practices vary widely across jurisdictions, leading to uncertainty and ambiguity for investors. The absence of clear guidelines and reporting requirements can hinder investment decision-making and increase compliance risks for startups operating in multiple markets.

### 03 Difficulty Measuring Long-Term Environmental Impact

- Startups face challenges in quantifying their long-term environmental impact, particularly concerning initiatives such as carbon footprint reduction or resource efficiency improvements. Limited historical data and uncertain future projections make it challenging for investors to assess the effectiveness of a startup's sustainability efforts over time.

## Opportunities

### 01 Early-Mover Advantage in a Rapidly Growing Market

- Despite the challenges, investors in the ESG startup space can gain a significant early-mover advantage in a rapidly growing market. By identifying and investing in startups with strong ESG credentials early on, investors can position themselves for potential long-term growth and value creation as sustainability considerations become increasingly mainstream.

### 02 Strong Customer Loyalty Driven by Shared Values

- ESG-focused startups often benefit from strong customer loyalty driven by shared values and a commitment to sustainability. Consumers are increasingly seeking products and services that align with their ethical and environmental beliefs, providing startups with a competitive edge and the potential for sustainable revenue growth.

### 03 Potential for Significant Societal and Environmental Benefits

- Investing in ESG startups offers investors the opportunity to generate significant societal and environmental benefits beyond financial returns. By supporting startups that are tackling pressing global challenges such as climate change, social inequality, and resource depletion, investors can contribute to positive social impact and sustainable development goals.

# The Future of ESG Startup Investment: Emerging Trends

## Climate Change and Transition Risks

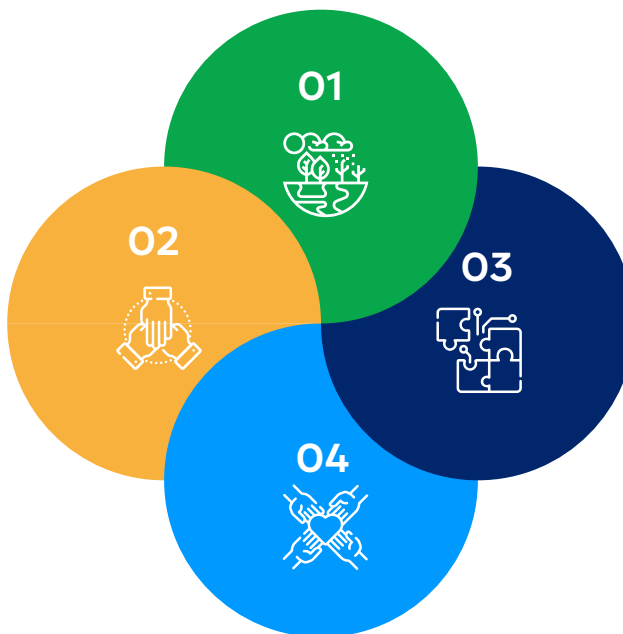
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Climate change and transition risks are major considerations for ESG investors. There is growing awareness of the financial implications of climate-related risks, such as physical risks (e.g., extreme weather events) and transition risks (e.g., policy changes, technological shifts). Investors are evaluating companies' climate resilience, carbon footprints, and strategies for transitioning to a low-carbon economy.

## Collaboration and Partnerships

02

ESG startups are forming strategic collaborations and partnerships with corporates, governments, NGOs, and academia to accelerate their impact and scale. These partnerships not only provide access to resources and expertise but also enhance the startup's credibility and market reach, attracting investors seeking collaborative and scalable ESG solutions.



## Technology Integration

03

ESG startups are leveraging technology innovations such as artificial intelligence (AI), blockchain, Internet of Things (IoT), and data analytics to enhance their ESG performance. For example, AI-powered sustainability platforms help startups track and analyse ESG metrics more effectively, while blockchain technology ensures transparency and traceability in supply chains.

## Inclusion and Diversity

04

ESG investors are placing greater emphasis on diversity, equity, and inclusion (DEI) within companies. They are evaluating diversity metrics, inclusion practices, and workforce demographics as part of their investment analysis. Companies that prioritize DEI are seen as more resilient, innovative, and aligned with societal values.

## Conclusion

- In conclusion, the landscape of ESG startup investments is evolving rapidly, driven by a convergence of investor perspectives and market trends. As investors increasingly prioritize environmental, social, and governance (ESG) factors in their investment decisions, ESG startups are gaining traction as attractive investment opportunities. The concept of "green returns" has emerged as a focal point, reflecting not only financial returns but also the positive environmental and social impact generated by ESG startups.
- The integration of ESG factors into investment strategies is not just a trend but a paradigm shift in how investors evaluate risk, identify opportunities, and align their values with their investment portfolios. ESG startups that demonstrate strong ESG governance, risk management, compliance, and measurable impact are well-positioned to attract investor capital and drive positive change.
- As the momentum behind ESG investing continues to grow, it is essential for investors to stay informed, engage in ESG due diligence, collaborate with stakeholders, and leverage emerging technologies and sustainable financing options. By embracing ESG principles and investing in innovative ESG startups, investors can not only achieve green returns but also contribute to a more sustainable and inclusive future for all stakeholders.



ESG