Brief overview of Environmental Social Governance - Indian Context

Jan 2023
Background

ESG stands for Environmental, Social, and Governance (“ESG”). The context of ESG expects companies to be socially responsible businesses and align its profit creation activities with the interests of the diverse group stakeholders. In September 2015, all the United Nations Member States adopted Sustainable Development Goals (“SDGs”) as a universal call to action to end poverty, protect the planet and ensure all the people enjoy peace and prosperity by the year 2030. The 17 SDGs and 169 associated targets came into force with effect from 1st January, 2016. The SDGs recognize that development must balance social, economic and environmental sustainability. The regulatory ESG trajectory of India started in the year 2009 with the guidelines issued by the MCA on CSR. Subsequently, in 2011 it further widened with the issue of National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business released by Ministry of Corporate Affairs (“NVG”). The framework has been revamped on multiple occasions and received lot of attention and support from the Indian businesses and the regulators. Global investor appetite is moving towards ESG investing theme. ESG is a form of sustainable investing that measures the impact of a company’s ethical contribution to its stakeholders. By adopting and implementing the ESG method of corporate decision making, companies develop closer proximity to its stakeholders.

This article attempts to provide a broad understanding of ESG framework in the Indian context.

Timeline of Evolution of ESG Framework in India

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<th>YEAR</th>
<th>DETAILS</th>
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<tr>
<td>2009</td>
<td>MCA issued guidelines on Corporate Social Responsibility</td>
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<td>2011</td>
<td>MCA releases NVG which provides framework for a Business Responsibility Report (“BRR”) to demonstrate compliance with 9 principles forming NVG</td>
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<td>2012</td>
<td>SEBI mandates top 100 listed companies (by market capitalization) to include BRR in their Annual Reports (“SEBI BRR”)</td>
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<td>2016</td>
<td>SEBI extends BRR applicability to the top 500 listed companies by market capitalization</td>
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<td>2019</td>
<td>MCA updates and revises NVGs by issuing National Guidelines on Responsible Business Conduct (“NGRBC”) &amp; SEBI BRR extended to top 1000 listed companies by market capitalization</td>
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<td>2020</td>
<td>MCA Committee submits its Report to review the existing BRR framework and to formulate a user-friendly, single and comprehensive reporting framework to measure non-financial parameters and a new reporting was recommended to be applied in a phased manner. SEBI issued a consultation paper on the new reporting format Business Responsibility and Sustainability Reporting (“BRSR”) in line with MCA recommendations</td>
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<td>2021</td>
<td>SEBI notified BRSR to take effect from the Financial Year 2022-2023, after which it will be mandatory for the top 1000 listed companies by market capitalisation</td>
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In 2011, MCA released NVGs providing framework for BRR. This was expected to provide guidance to businesses on what constitutes responsible business conduct. Consequent to the same, SEBI had mandated BRR to be included in Annual Reports for listed top 100 listed entities (increased to 500 and 1000 subsequently) by market capitalization.

In 2015, in order to align the NVGs with the SDGs, the process of revision of NVGs was started. After, revision and updation, the new principles, called the NGRBC were issued.

The nine (9) principles provided under NGRBC are as under:

- **Principle 1**: Businesses should conduct and govern themselves with integrity and in a manner that is ethical, transparent and accountable.
- **Principle 2**: Businesses should provide goods and service in a manner that is sustainable and safe.
- **Principle 3**: Businesses should respect and promote the well-being of all employees, including those in their value chains.
- **Principle 4**: Businesses should respect the interests of and be responsive to all its stakeholders.
- **Principle 5**: Businesses should respect and promote human rights.
- **Principle 6**: Businesses should respect and make efforts to protect and restore the environment.
- **Principle 7**: Businesses, when engaging in influencing public and regulatory policy, should do so in a manner that is responsible and transparent.
- **Principle 8**: Businesses should promote inclusive growth and equitable development.
- **Principle 9**: Businesses should engage with and provide value to their consumers in a responsible manner.

These are more or less in sync with the SDGs.

**MCA Committee Recommendations for an enhanced BRR framework**

Simultaneous to the adoption of the more refined NGRBC vis-a-vis NVGs, the MCA had constituted a Committee on Business Responsibility Reporting (“Committee”) to review the existing BRR framework and the Committee published its report on 11 August 2020 (“Report”) recommending compliance to revamped formats in a phased manner beginning 2021-22. On May 10, 2021, the SEBI issued a circular implementing new sustainability-related reporting requirements for the top 1,000 listed companies by market capitalization. New disclosure will be made in the format of the BRSR, which is a notable departure from SEBI’s existing BRR and a significant step toward bringing sustainability reporting. The new BRSR format is based on the nine principles of the NGRBCs, which are intended to define responsible business conduct for Indian companies. BRSR reporting was voluntary for FY 2021-22 and mandatory from FY 2022-23 for the top 1,000 listed companies by market capitalization.
Structure BRSR

The BRSR is divided in three parts: general disclosures (mandatory to report), management and process disclosures (mandatory to report) and principle wise performance disclosures. The last category i.e. principle-wise reporting is further divided into essential indicators (mandatory) and leadership indicators (voluntary).

Key disclosures forming part of the essential indicators are as follows:

Environmental: The BRSR has placed significant thrust on environmental compliances by mandating many quantitative and qualitative disclosures with respect to energy consumption, water withdrawal, air emissions (including for greenhouse gas emissions), waste management, sustainable sourcing as well as compliance with extended producer responsibility thereby adhering to principles 2 and 6 laid down by the NGRBC.

Social: BRSR lays down comprehensive reporting requirements regarding measures undertaken for the well-being of employees, quantifying gender and social diversity indicators, performance and career development policies, health and safety management, accessibility of workplaces, equal opportunity, turnover rates and welfare benefits. Additionally, businesses are also required to make disclosures on social impact assessments of projects, restrictive trade practices etc. These disclosures are intended to persuade compliance with principles 3, 4, 5, 8 and 9 of the NGRBC.

Governance: Principles 1 and 7 laid down by the NGRBC have been incorporated by prescribing mandatory disclosures regarding anti-corruption/anti-bribery policies of the entities, training and awareness programmes conducted and fines/penalties imposed on any directors/key management personnel.

Further, cross references to other internationally accepted reporting frameworks (such as the GRI, SASB etc) being followed by the reporting entity are accepted. The ESG model proposed by SEBI is in line with international standards such as GRI, TCFD and SASB.

Conclusion

ESG has become a critical board room agenda and has become imperative to long-term value creation. There is increasing need to meet investor demand for comparable ESG measurements and disclosures. To be successful, firms will need to incorporate ESG value model into long-term strategies. Corporates which do not pay necessary attention may invite heavy dent on their survival.
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