

ESG - MARCHING TOWARDS SUSTAINABLE DEVELOPMENT GOALS

Abstract

The SDGs 2030 is a global initiative by 193 Member Nations of the United Nations (UN) calling for bold initiatives towards sustainable development focusing on people, planet, peace and prosperity. It is in this context that the Environment Social Governance (ESG) initiative to reach the SDG goals assume significance. It is noted that some less prominent nations have silently taken meaningful initiatives. India has also taken significant steps and the new Business Responsibility and Sustainability Report (BRSR) framework is effective from FY 2022-23. The way forward is a holistic humane approach backed by sheer professionalism having a multi-disciplinary base in using ESG as the framework to attain the SDGs.

“Sustainable development refers to a mode of human development in which resource use aims to meet human needs while preserving the environment so that these needs can be met not only in the present, but also for the generations to come.” –

Dr. A P J Abdul Kalam, Former President of India

INTRODUCTION

While globally there is an apparent sense of all-round progress and economic development during the last three decades, there are three main concerns namely rising inequalities and gulf between the haves and have-nots, damage to the planet and environment and in the wake of rapid pace of growth, there are many unique challenges requiring to be addressed. If we do not address the current problems facing the planet and the environment, they will quickly grow into such proportion and magnitude that it will become more difficult to deal with them now. The Sustainable Development Goals (SDGs) are to be viewed as targets that require a concrete plan to overcome these challenges¹.

India's population is estimated at 17 per cent of the world's population, with only about 2.4 per cent of its land being arable, while its water and forest resources are depleting. Further, India is on course to become the most populous nation of the world by 2025. India's future society is sustainable only if the country can at least provide basic necessities of life to have a reasonable living for its entire population. According to a UN estimate in 2019, 28 per cent



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of India's population is poor and add to this the new additions of poor persons consequent to the impact of COVID-19 pandemic, the challenges of addressing critical social issues such as poverty and jobs are now uppermost in the minds of the Government.

¹ <https://sdgzone.com/learn/why-do-we-need-sdgs/>

* The views expressed are the personal views of the authors and do not reflect the views of the organisations they work for or are associated with

The current developments underline the imperatives for countries to make this planet a better place to live. The harsh truth for all countries, whether rich or poor, is that as long as society is economically unbalanced as well as unstable, fuelling sustainable economic and social growth addressing all sections of the society and the environmental concerns is a pipe dream. The requirement is a sincere, open and inclusive mind set as well as gigantic effort, calling for a new model of development that will simultaneously give a push to positive economic advancement, provide a framework for sustainability in decent living for all in an inclusive manner and reverse the damage already caused to the environment at the least, failing which any endeavour towards SDG's are bound to be piecemeal and / or exclusive and / or inadequate. In this context, ESG through crystal clear policy measures is suggested as the route to be pursued for marching towards attaining Sustainable Development Goals (SDG's).

THE SUSTAINABLE DEVELOPMENT GOALS (SDGs)

The SDGs 2030 is a global initiative by 193 Member Nations of the United Nations (UN) calling for bold initiatives towards sustainable development focusing on people, planet, peace and prosperity and they offer a globally accepted framework with uniform metrics for all countries against which to measure and compare progress². The SDGs identify 17 fields across 163 inter-connected indicators and push for alignment and collaborative as well as co-ordinated action among the stakeholders. It can be seen that the SDGs are ambitious goals targeting elimination, rather than reduction of malnutrition, poverty and the like. From an Indian perspective, there is a need to review and re-work the its development narrative so that no one is left behind as the country seeks to truly grow into a leadership

² https://www.bain.com/contentassets/069bf-9cf144e4b8bbdda8a5386a5611/bain_brief_india_philanthropy_report_2019.pdf

The impact of COVID-19 pandemic, the challenges of addressing critical social issues such as poverty and jobs are now uppermost in the minds of the Government

position as an emerging world power.

CONCEPTUAL FRAMEWORK OF ESG

Whenever the sustainability of any business or company is evaluated from an investor perspective, the financial as well as the non-financial aspects are considered and analysed. With respect to non-financial aspects, there are three important aspects for measuring and evaluating the sustainability of any investment in a business or a company. ESG is all about integrating social and ecological concerns into business activities and adopting a long-term vision as opposed to short-term opportunism³. It is widely believed that any business or company which adhere to ESG standards have demonstrated their agreement to conduct themselves ethically in these three important aspects.

Given the global as well as the domestic scenario in which huge importance is assigned to ESG parameters by investors and all other stakeholders such as Suppliers, Employees, Society, Regulator and the business itself, committing to ESG obligations in sum and substance is inevitable for long term sustainability.

ESG - GLOBAL SCENARIO

The 2015 Paris Climate Agreement has perhaps been the starting point for this serious pursuit in the direction of ESG. The landmark agreement featured a commitment from the signatory countries to achieve

³ <https://youmatter.world/en/definition/definitions-esg-what-is-it-definition-principles-and-examples/>

reduction in the quantum of carbon emissions by 55 gigatons by 2030. Given the enormity of the effort required, this requires collective effort by all countries.

An estimate of the extent of sustainable investments in 2020 according to the Global Sustainable Investment Review Report is around US\$35.3 trillion, which covers the financial markets in the regions of United States, Canada, Japan, Europe and Australia. Across these regions these sustainable investments represent 36 per cent of the assets under management.⁴ Compared to the position two years before, investments in sustainable assets was estimated at US\$30.7 trillion, indicating a growth of 15 per cent in this period. Going forward, this increasing trend is expected to continue as both institutional as well as individual demand is expected to increase.

In this context, it is praiseworthy to note that quite a few less prominent countries have made a silent yet significant impact with respect to ESG initiatives, some of which are briefly covered in the ensuing paragraphs.

Japan

The noted trend in Japan is that investors are attaching great importance to ESG criteria when assessing investment proposals. This has driven the listed entities in Japan to disclose more ESG-related information and activities. Following this trend, especially overseas entities have published frameworks, standards, as well as guidance on ESG disclosure, but listed companies are struggling in the process.⁵

The guidance on ESG disclosure published in "<https://www.jpx.co.jp/english/corporate/sustainability/esginvestment/handbook/index.html>" prescribes four steps as per the following chart:

⁴ <http://www.gsi-alliance.org/trends-report-2020/>

⁵ <https://www.jpx.co.jp/english/corporate/sustainability/esg-investment/handbook/index.html>



Norway

Norway has ushered in a new ESG code this year which is expected to enhance the already significant impact it has made. The ESG code contains certain regulations that are applicable to all industries and some are applicable to specific industries. For instance, regulations such as Company Act, Human Rights Act, Working Environment Act, Gender Equality and discrimination Act, Biodiversity Act, Pollution Control Act, Penal Code and the National regulation incorporating the international commitments of Norway are generally applicable irrespective of the industry. The highlight of the new regulation is that Norway is probably the only Government which has considered COVID-19 pandemic not as a threat for ESG, but an opportunity to pursue ESG more vigorously⁶.

Botswana

Botswana Stock Exchange (BSE), which happens to be one of the partner exchanges of the United Nations Sustainable Stock Exchanges initiative (SSE) since 2016, has taken initiative early on by issuing concrete guidance to the listed companies on ESG reporting to stakeholders. The BSE has recognised the importance of SSE's intention to bridge the gaps in the disclosures relating to ESG. As per the BSE's website, "it is the 28th exchange to publish such guidance since the beginning of the campaign. In total there are now 42 stock exchanges with guidance on ESG reporting, with a further 7 having made commitments to do so in the future. Whilst ESG reporting remains voluntary for BSE issuers, the availability of guidance will make transparency on ESG issues easier to achieve and should increase the incidence of companies choosing to disclose such information."

⁶ <https://iclg.com/practice-areas/environmental-social-and-governance-law/norway>



Source: Guidance for Listed Companies on reporting ESG Information to Investors by Botswana Stock Exchange

Trinidad and Tobago

The country is committed to the 2030 SDG's as is evident from the 2030 vision which incorporates the SDG's. The Voluntary National Review (VNR)⁷ is the Government's commitment to inclusive growth and development which engages stakeholders for concrete measures leading to sustainable development. The commitment of the Government has been seen to be evident during the pandemic period, as borne out by the number of online consultations.

Other Caribbean Nations

Like Trinidad and Tobago, most of the Governments of the other about 20 nations constituting the Caribbean islands have clearly communicated to the stakeholders the importance of ESG highlighting that investors may find those businesses without track record not worthy for being considered for

⁷ <https://www.esgenterprise.com/esg-news/state-esg-caribbean/>

investments. Of particular mention is the “Blue Economic policies that tap the potential of the local ecosystems to add to a widening ESG investment menu and considering the competition for international capital, this trend could provide Caribbean countries with a wider platform to attract foreign and domestic investment.”⁸.

GLOBAL REPORTING FRAMEWORK

There are quite a few Global reporting frameworks that are in place as regards ESG. The most prominent among them are those of GRI and VRF, which are briefly discussed in the following paragraphs.

Global Reporting Initiative (GRI)

The GRI is an international independent standards organization with headquarters in Amsterdam. GRI plays a major role in helping business entities, Governments and other organizations understand and communicate their impacts on issues concerning climate change, human rights and corruption. It is estimated that about 100 countries use the GRI guidelines. It is necessary that business entities and other organizations are accountable and take responsibility for their impacts. GRI Standards provide the business entities and other organisations with the global common language to communicate those impacts to the stakeholders.⁹

Value Reporting Foundation (VRF)

The VRF is a global non-profit organization that offers a suite of resources on a single window basis, which is designed to help business entities, investors and stakeholders develop a shared understanding of enterprise value.¹⁰ VRF offers three different resources as under: -

- *Integrated Thinking Principles*, which are useful

inputs for Board strategy as well as management planning and decision making.

- *Integrated Reporting Framework*, which provides valuable guidance based on principles for comprehensive ESG reporting.
- *Sustainable Accounting Standards Board (SASB)*, which has evolved 77 industry-specific standards each of which helps in identifying the subset of ESG issues that are of great relevance to the financial performance in each industry so that the integrated reporting can provide valuable insights into various sustainability issues from the point of view of investors.

It is estimated that about 75 countries use the Integrated Reporting Framework.

INDIA'S ESG FRAMEWORK

Starting with the earliest visible initiative in 2009, India has travelled quite a distance with respect to ESG, though a lot more needs to be done in supersonic speed to meet the SDG's by 2030.

Corporate Social Responsibility (CSR)

CSR is already an existing framework under the provisions of Companies Act, 2013 applicable to both listed companies as well as unlisted companies. CSR provisions are mandatorily applicable to a company based on thresholds of Profits, Turnover and Net Worth.

Every company which fulfils any one of the following three criteria namely

- ⊙ Net profits of Rs. 5 Crores or more in the preceding financial year or
- ⊙ Turnover in the preceding financial year of Rs. 1000 Crores or more or
- ⊙ Net worth as at the end of the

preceding financial year of Rs. 500 Crores or more

is mandatorily required to have in place a CSR policy outlining the areas in which the company will spend for CSR related activities. The mandatory required quantum of CSR spend is 2 per cent of average net profits made in the preceding three financial years or for if it has not completed three years since its incorporation, then since incorporation. There are detailed provisions in the Companies Act, 2013 and the rules prescribed thereunder namely Companies (Corporate Social Responsibility Policy) Rules, 2014 to regulate the CSR spends by the companies.

Social Stock Exchange (SSE)

In the case of SSE, the Technical Group constituted by SEBI has issued a consultation paper in May 2021 inviting comments from stakeholders. The regulatory provisions for setting up of SSE and other related matters including Social Audit and reporting are yet to be prescribed. SSE is expected to create a major impact on the ESG scenario in India.

Business Responsibility Report (BRR) converging to Business Responsibility and Sustainable Report (BRSR)

BRR, which was prescribed to be effective from the financial years ending on or after 31st December, 2012 for 100 listed entities initially is currently applicable mandatorily to the top 1000 listed entities by market capitalisation. SEBI has extended the scope of this report by including the concepts of “Sustainability” under the framework of “Business Responsibility and Sustainability Reporting”. For the FY 2021-22, the reporting under the BRSR framework for the top 1000 listed entities and other entities is voluntary, but from FY 2022-23 onwards, BRSR reporting is mandatorily applicable to top 1000 listed entities and reporting under BRR framework will be discontinued from FY 2022-23,

⁸ Ibid .7

⁹ <https://www.globalreporting.org/>

¹⁰ <https://www.valuereportingfoundation.org/>

being replaced by the enhanced framework of BRSR therefrom. For entities other than the top 1000 listed entities, reporting under the BRSR framework is voluntary.

Overview of BRSR framework

The new BRSR framework is covered by SEBI Circular dated May 10, 2021, which seeks to connect the financial performance of a listed entity with its ESG performance in such a manner that the regulators, investors and other stakeholders are in a position to assess and evaluate the overall business stability, growth and sustainability on all parameters not just financial parameters alone. SEBI has been at the forefront in the adoption of ESG disclosures way back in 2012 through the introduction of BRR framework. However, keeping pace with the new developments globally notably the adoption of the Paris Agreement in 2015 and the time clock clicking rapidly towards 2030 for the accomplishment of SDG targets, SEBI responded to the scenario on sustainability by introducing the BRSR framework which lays far greater emphasis on sustainability initiatives and their disclosures by the listed entity. In addition to prescribing the format of the BRSR report in the said circular vide Annexure I, SEBI has also prescribed a guidance note vide Annexure II to enable the companies to comprehend and interpret the scope of disclosures.¹¹

The BRSR format is divided into three sections namely:

Section A – General Disclosures

Under this section, the detailed disclosures are prescribed for the following: -

- ⊙ Details of the Listed Entity
- ⊙ Products / Services
- ⊙ Operations
- ⊙ Employees
- ⊙ Holding, Subsidiary and Associate Companies

(including Joint Ventures)

- ⊙ CSR Details
- ⊙ Transparency and Disclosures Compliances

Section B - Management and Process Disclosures

Under this section, disclosures are sought aimed at helping entities to demonstrate the structures, policies and processes put in place towards adopting the NGRBC (National Guidelines on Responsible Business Conduct) Principles and Core Elements.

Section C – Principles wise Performance Disclosures

Under this section in the cited SEBI circular, “disclosures are sought that are aimed at helping entities demonstrate their performance in integrating the principles and core elements with key processes and decisions. The information sought with respect to indicators that are categorized as “Essential” and “Leadership”. While the essential indicators are expected to be disclosed by every entity that is mandated to file this report, the leadership indicators may be voluntarily disclosed by entities which aspire to progress to a higher level in their quest to be socially, environmentally and ethically responsible.”

The nine principles under which disclosures are sought distinctly under two heads (Essential Indicators and Leadership Indicators) are detailed in the cited Annexure I to the SEBI circular.

THE WAY FORWARD

Though the pandemic has created a greater awareness about the importance of ESG amongst all nations, it has created a gap in the fulfilment of individual SDG targets amongst most of them, which calls for a greater involvement of developed nations to help and bail out the smaller and less developed nations, failing which fulfilment

of SDG targets globally may only be quoted as a utopian dream without anything concrete in terms of achievement. It also requires nations to bury their individual political agenda for the larger good of the world at large. This requires a holistic humane approach backed by sheer professionalism having a multi-disciplinary base always keeping in mind the big picture. The responsibility for travelling this path towards attainment of the SDG's is not just with the governments, but also all the stakeholders in each of the member nations and the large corporates and fund houses that are sitting on a huge pile of funds which can be better channelised towards ESG goals benefiting not just some stakeholders selectively but all the stakeholders in a balanced and inclusive manner. In our endeavours it should be ensured that pure economic development and sustainability should not be at crossroads. Here members of academia and professionals have a great role to play in highlighting the need to ensure that the world is a better place to live¹². At this stage it is stated that if our children are happy, then the world is a happy place. This is what is required to be imbibed from the Norway model¹³ and this could well be the ultimate SDG for every country and the world at large. It is hoped that ESG initiatives will take the necessary shape to take us there!

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¹¹ SEBI Circular Ref.No SEBI/HO/CFD/CMD-2/P/CIR/2021/562

¹² <https://time.com/collection/guide-to-happiness/4706590/scandinavia-world-happiness-report-nordics/>

¹³ <https://norwaytoday.info/everyday/norwegian-children-feel-healthy-happy/>