ESG and India

Prelims: CSR, Climate Change, UNPRI, BRSR, Poverty, Inequality.

Mains: ESG and India.

Why in News?

People across the world are embracing the idea that business should be measured on the Environment, Social and Governance (ESG) metric, however ESG laws and Regulations are still at a nascent stage in India, and much further to go in this direction.

What is ESG?

- **About:**
  - ESG goals are a set of standards for a company's operations that force companies to follow better **governance, ethical practices, environment-friendly measures and social responsibility.**
    - **Environmental** criteria consider how **a company performs as a steward** of nature.
    - **Social criteria** examine how it manages **relationships with employees,** suppliers, customers, and the communities where it operates.
    - **Governance** deals with a **company's leadership, executive pay,** audits, internal controls, and shareholder rights.
  - It focuses on non-financial factors as a metric for guiding investment decisions wherein increased financial returns is **no longer the sole objective of investors.**
  - Ever since the introduction of the **United Nations Principles for Responsible Investing (UNPRI)** in 2006, the **ESG framework has been recognised as an inextricable link** of modern-day businesses.
- **Differing from CSR:**
  - India has a robust Corporate Social Responsibility (CSR) policy that mandates that corporations engage in initiatives that contribute to the welfare of society.
  - This mandate was codified into law with the passage of the 2014 and 2021 amendments to the Companies Act of 2013.
    - The amendments require companies in any given financial year to spend at **least 2% of their net profit** over the preceding three years on **CSR activities.**
    - Whereas ESG regulations **differ in process and impact.**

What is the Need for ESG in India?

- India faces significant environmental challenges, including air and water pollution, deforestation, and climate change, also there are significant social challenges such as poverty, inequality, **discrimination, and human rights abuses,** making the importance of investing in companies **that are committed to addressing these issues** and promoting **social justice.**
- India has **a complex regulatory and legal environment,** and companies operating in India may

face challenges related to corruption, regulatory compliance, and corporate governance. Therefore, there is an increasing need for recognizing the companies with **strong governance practices to mitigate these risks.**

What are the Challenges related to ESG Compliance in India?

- **Limited Awareness:** Many companies in India may not be fully aware of the importance of ESG factors or may not have the resources to integrate ESG considerations into their business practices.
- **Inadequate Data:** In India, there may be limited publicly available data on ESG factors for companies, making it difficult for investors to evaluate ESG performance and make informed investment decisions.
- **Weak Regulatory Environment:** India's regulatory environment **may not be fully developed or enforced to ensure ESG** compliance by companies. This may lead to a lack of accountability and transparency in corporate practices.
- **Cultural Factors:** India has a **diverse cultural landscape, and some traditional business practices** may not align with ESG principles. Companies may need to navigate these cultural factors to implement ESG policies effectively.
- **Limited ESG-focused Investment Options:** Investors may have limited investment options that focus specifically on ESG factors in India, making it difficult to fully integrate ESG considerations into investment decision-making.

What Initiatives have been taken to Ensure ESG Compliance?

- One of the initial milestones towards identifying ESG disclosure requirements for companies was the release of the National Voluntary Guidelines on Social, Environmental and **Economic Responsibilities of Business (NVGs) in 2011 by the Ministry of Corporate Affairs (MCA).**
- In 2012, the SEBI formulated the **Business Responsibility Reports (BRR)** which mandated top 100 listed entities (which was extended to top 500 listed entities in 2015) by market capitalization to file BRR as part of their annual report.
- In 2021, SEBI replaced the existing BRR reporting requirement with a more comprehensive integrated mechanism, the Business Responsibility and Sustainability Report (BRSR).
    - It will be mandatorily applicable to the top 1,000 listed entities (by market capitalization) from FY 2022-23 onwards.
- The BRSR seeks disclosures from listed entities on their performance against the nine principles of the 'National Guidelines on Responsible Business Conduct' (NGBRCs).

Way Forward

- To promote ESG adoption in India, there needs to be increased awareness among companies, investors, and regulators about the importance of ESG factors for sustainable and responsible investing.
- Companies in India should provide **more comprehensive and standardized disclosures on ESG factors** to enable investors to evaluate their ESG performance more effectively.
- The regulatory environment in India should be **strengthened to promote greater ESG compliance by companies.** This could involve introducing more robust reporting requirements, establishing clearer ESG standards, and enforcing regulations more rigorously.

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