



CSR and ESG - Journey Towards Sustainable Development Goals

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The COVID-19 pandemic has increased the focus on impact of sustainability and the financial system. Businesses are now being evaluated by their mechanism of dealing with the ecological and social concerns. Thus, sustainability has become an essential corporate goal for which business strategies impacting reporting and disclosures on Corporate Social Responsibility (CSR) and Environment, Social, and Governance (ESG) are focused. The paper aims to bring forward the sustainability patterns by describing the evolution of sustainable reporting in India, CSR contribution trends over the seven years from FY 2014-15 to FY 2020-21 and bringing to light the picture of ESG reporting along with conceptualization of Business Responsibility and Sustainability Reporting (BRSR).

Introduction

Sustainable development focuses on an integrated approach that combines Environmental concerns along with Economic development.

In 1987, the United Nations Brundtland Commission defined sustainability as “meeting the needs of the present without compromising the ability of future generations to meet their own needs.” Today almost all the countries in the world are seeking ways to meet their development needs and enhance ways and methods to mitigate the risks of threat of socio-economic disasters like climate change and ensure development not only today but also in future.

Corporate Social Responsibility (CSR) and

Environment, Social, and Governance (ESG) initiatives develop sustainable business practices and provide information to the society about the ethics, goals, and risks of a company. This article explain the evolution and trends of CSR contributions over the past seven years, elucidates the difference between and the overlapping concepts of CSR and ESG and presents the framework for Business Responsibility and Sustainability Reporting (BRSR).

The recognition started when in the 11th five year plan, inclusive growth was recognized as an essential part of India's quest for development. It meant to include the neglected sections of society in the growth process. This was the initial move towards integrating the notion of business responsibility and sustainability into business activities.

In line with this national aim, Corporate Social Responsibility (CSR) evolved as a medium for integrating social, environmental and human issues as a part of corporate projects. Further, to set in motion the concept of Business Responsibilities, The Ministry of Corporate Affairs had issued ‘Voluntary Guidelines on Corporate Social Responsibility, 2009’ and it was further revised as ‘National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business, 2011’ (NVGs). The eight principle NVGs namely ‘inclusive growth and equitable development’ focuses on stimulating activities on national, social and environmental and economic areas, including community development initiatives and this principle

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of NVG was subsequently translated into a mandatory provision of Corporate Social Responsibility (CSR) in Section 135 of the Companies Act 2013.

Henceforth, the ESG reporting scenario in India has come a long way with the release of several other guidelines, including Business Responsibility Report (BRR), Integrated Reporting (IR), National Guidelines on Responsible Business Conduct (NGRBC), and

recently, the Securities and Exchange Board of India (SEBI) introduced Business Responsibility and Sustainability Report (BRSR) in May 2021. BRSR is the communication and disclosure of a company's ESG goals and the progress made towards achieving them. The evolution of ESG in India is summarized in Table-1 below.

Table 1- The evolution of ESG in India

Year	Details of initiatives towards ESG
2007	RBI advises Commercial banks on CSR, sustainability and non-financial disclosure.
2009	The Ministry of Corporate Affairs (MCA), Government of India (GoI), for the first time introduced Corporate Social Responsibility (CSR) voluntary guidelines. They announced to formulate CSR policy together with strategic planning along with the roadmap for CSR initiatives. According to these guidelines, six elements of CSR policy namely, care of stakeholders, ethical functioning, respect for worker's right and welfare, respect for human rights, respect for environment and activities related to social and inclusive development should be considered by companies.
2011	MCA, GOI refined the CSR Voluntary Guidelines, 2009 and introduced National Voluntary Guidelines (NVG) on Social, Environmental & Economic responsibilities on business. Their adoption was voluntary from Financial Year (FY) 2011-12 and comprised of nine principles like business should protect, respect and restore the environment etc.
2012	The Securities and Exchange Board of India (SEBI) issued guidelines for mandatory adoption of BRR practices as per framework by the top 100 listed entities.
2014	The Companies Act, 2013 was enacted and according to sub section (4) of section 135 the landmark CSR law came into existence.
2015	The SEBI in 2015, issued new guidelines along with BRR format and made reporting mandatory for top 500 listed entities.
2017	The SEBI vide circular dated 7 th Feb 2017, suggested adopting Integrated Reporting Disclosure Practices by the top 500 listed entities on voluntary basis from FY 2017-18.
2019	The SEBI extended the provisions of BRR to top 1000 listed entities from FY 2019-20.
2021	As per SEBI circular dated 10 th May 2021, top 1000 listed entities are required to prepare Business Responsibility and Sustainability Reporting (BRSR) instead of BRR from FY 2021-22. The SEBI issued new format of BRSR and reporting on the Company performance based on nine principles as suggested in National Guidelines on Responsible Business Conduct (NGRBC).

Source: MCA, SEBI, Companies Act, 2013, and CRISIL ESG report, 2021

What is Corporate Social Responsibility (CSR)?

Corporate Social Responsibility is a concept which integrates environmental and social sustainability concerns in the business operations while meeting the expectations of stakeholders. CSR is considered

as an objective whereby the companies function to pursue the social objectives in addition to the maximization of profits.

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 is mandatorily required to have in place a CSR policy outlining the areas in which the company will spend for CSR related activities:

- 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

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.

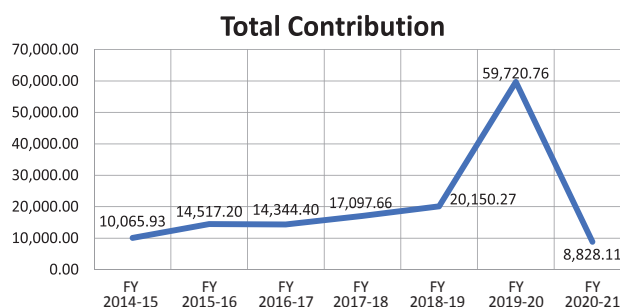
CSR contribution pattern over the seven years

CSR has been a part of business practice for over seven years since its beginning from FY 2014-15 to FY 2020-21. The CSR trend analysis will give a useful insight about contribution patterns towards Corporate Social Responsibility (CSR) initiative.

A. Momentum of CSR Contribution

The CSR contributions slowly and steadily gained momentum and in just 4 years the contribution got doubled from Rs. 10,065.93 cr. in FY 2014-15 (the first year) to Rs. 20,150.27 cr. in FY 2018-19 (the fifth year). Further, a drastic growth in contribution was seen in the sixth year FY 2019-20 with almost 3 times the amount invested in the previous year. However, with the impact of COVID-19 disaster the contribution in the seventh year FY 2020-21 fell sharply to its all-time low with Rs 8,828.11 cr.

Chart 1- Shows yearly Total CSR contribution



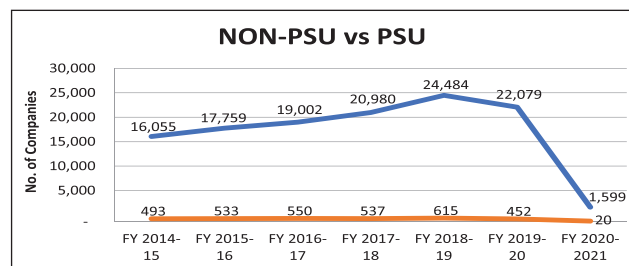
Source: <https://csr.gov.in/>

B. Number of participants

The number of non-PSU contributing companies were more than the number of PSU companies. The number of contributing companies has been growing consistently year on year, reaching the highest in FY 2018-19 with 24,484 nos. of non-PSU companies and 615 nos. of PSU companies investing for social cause. But wings of Covid impact was seen from FY 2019-20 and in FY 2020-21 just 1,599 non-PSU and 20 PSU companies played a part in the action.

The average contribution per participant has moved over the years from Rs. 0.61 Crore in the first year 2014-15 to Rs. 5.45 Crore in the 2020-21

Chart 2- Shows the yearly number of Companies participating in CSR contribution



Source: <https://csr.gov.in/>

Table 2 - Average contribution per participant

	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21
Total contribution (in Cr)	10,065.93	14,517.20	14,344.40	17,097.66	20,150.27	59,720.76	8,828.11
No. of contributors	16,548	18,292	19,552	21,517	25,099	22,531	1,619
Average contribution per participant (in Cr)	0.61	0.79	0.73	0.79	0.80	2.65	5.45

C. Sector Wise Contribution

A diligent observation of the table reveals that the education sector has remained the favourite sector for contribution for all the six years except the seventh year hit by COVID-19 pandemic where health care got most of the pitch-in. Other sectors which secured a place in top 5 financed sectors are rural development projects, environment sustainability and sanitation.

Table 3 - Top 5 sectors gaining highest CSR contribution

Development Sector	Education	Health Care	Rural Development Projects	Environmental Sustainability	Sanitation
FY 2014-15	2,589.42	1,847.74	1,059.35	773.99	299.54
FY 2015-16	4,057.45	2,569.43	1,376.16	796.69	631.80
FY 2016-17	4,504.91	2,491.52	1,554.78	1,076.46	421.71
FY 2017-18	5,762.68	2,776.93	1,724.07	1,301.96	460.68
FY 2018-19	6,090.64	3,603.73	2,428.45	1,361.92	506.66
FY 2019-20	7,103.54	4,825.70	2,279.20	1,457.26	518.83
FY 2020-21	2,229.23	2,559.30	604.33	445.75	131.06

Source: <https://csr.gov.in/>

D. State wise Contribution

Looking at the contribution table, we infer that the state of Maharashtra is most preferred. There is an increase in amount kicked in year-on-year with maximum in FY 2019-20 with Rs 3,400.48 Crore. The state of Andhra Pradesh initially showed a promising start but was overrun by Karnataka and Gujarat from FY 2016-17 onwards. However, Uttar Pradesh locked the fifth position in all the seven years.

Table 4 - Top 5 states receiving the highest contribution

States/UT	Maharashtra	Gujarat	Andhra Pradesh	Karnataka	Uttar Pradesh
FY 2014-15	1,445.91	313.44	414.27	403.46	148.90
FY 2015-16	2,052.23	551.42	1,294.28	784.66	423.79
FY 2016-17	2,492.11	870.84	753.53	887.68	328.31
FY 2017-18	2,833.41	983.77	578.22	1,161.68	442.30
FY 2018-19	3,205.17	1,091.69	668.72	1,279.98	524.33
FY 2019-20	3,400.48	988.99	714.94	1,480.63	580.80
FY 2020-21	1,100.59	582.37	446.86	434.69	361.96

Source: <https://csr.gov.in/>

What is Environmental, Social & Governance (ESG)?

Environmental, Social & Governance (ESG) refers to a trio of business measures used by socially conscious investors to identify and quantify the measures of a company's sustainability and societal impact, using metrics that matter to investors.

Environmental criteria consider how a company performs as a caretaker of nature. Social criteria inspect the management of relationships with employees, customers, suppliers etc. Governance handles leadership, executive pay, audits, internal controls, and shareholder rights.

1. Environmental - Conservation of the natural world. It includes:

- Climate change and carbon emissions
- Air and water pollution
- Biodiversity
- Deforestation
- Energy efficiency
- Waste management
- Water scarcity

2. Social - Consideration of people & relationships. It includes:

- Customer satisfaction
- Data protection and privacy
- Gender and diversity
- Employee engagement
- Community relations
- Human rights
- Labor standards

3. Governance - Standards for running a company. It includes:

- Board composition
- Audit committee structure
- Bribery and corruption
- Executive compensation
- Lobbying
- Political contributions
- Whistle-blower schemes

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

BRR, initially effective from the financial years ending on or after 31st December, 2012 for 100 listed entities has, thereafter, widened the scope and is currently applicable mandatorily to the top 1000 listed entities by market capitalisation. Further to integrate the concepts of “Sustainability” with BRR, SEBI has extended the latitude of this report towards the framework of “Business Responsibility and Sustainability Reporting”.

The reporting under the BRSR framework is voluntary applicable to the top 1000 listed entities for the FY 2021-22, but from FY 2022-23 onwards, BRSR reporting is mandatorily applicable to top 1000 listed entities. Thereafter, reporting under BRR framework will be discontinued from FY 2022-23 and will be replaced by the enhanced framework of BRSR. 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 introduced by SEBI circular dated May 10, 2021, which attempts to form a connection between the financial performance an entity with its ESG performance enabling the stakeholders including regulators, investors to assess and evaluate the business stability, growth and sustainability on ecological and social performance parameters in addition to financial parameters. The circular prescribes the format of the BRSR report vide Annexure I, along with the guidance note vide Annexure II to enable the companies to understand and interpret the scope of disclosures.

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 aimed at helping Companies 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, “disclosures 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”. The essential indicators are to be disclosed mandatorily by every company liable to file this report, whereas the leadership indicators are voluntarily disclosure by entities which aspire to progress to a higher level in their quest to be socially, environmentally and ethically responsible.”

Key disclosures required with respect to the following 9 principles are :

- i. The businesses must perform operations with integrity, and must be ethical, transparent and accountable.
- ii. The sustainable and safe means and methods must be employed to produce goods and services.
- iii. Businesses should respect and promote the well-being of all employees, including those in their value chain.

- iv. Businesses should respect the interests and be responsive to all its stakeholders.
- v. Business must show respect and endorse Human Rights.
- vi. Steps must be designed to protect and restore the environment.
- vii. Responsible and transparent means must be adopted in influencing public or regulatory policy.
- viii. Inclusive growth and equitable development should be main motive for all activities.
- ix. Business should show accountability and value to their customers.

Environmental, Social & Governance (ESG) vs Corporate Social Responsibility (CSR)

Where CSR represents a company's efforts to have a positive impact on its employees, consumers, the environment, and community. It's a form of reporting that most large companies perform annually. ESG, on the other hand, measures these efforts and activities to show up a more explicit assessment of a company's actions. CSR impacts internal processes and culture of the company, whereas ESG is a measurable set of company affairs that collaborators and investors examine during evaluation of a company. ESG describes and highlights a company's moral values and ability to spot, evaluate and estimate its risks and opportunities. The purpose of ESG is to consider how ethically a company performs its activities, putting sustainability and moral principles above profit. Such measurable elements are valuable both for investors and company management in making strategic decisions.

Thus, ESG is the quantifiable measure of a company's sustainability and societal impact, using metrics that matter to investors as more and more millennial investors are choosing to back socially responsible organisations reflecting societal changes.

Why has ESG suddenly become so important?

ESG issues are important to business unit that aim at sustainability and future collaborators who not only need to see the financial aspect but are also assess how a company is ethically run, how it serves the society and impacts the environment. These factors cumulatively determine the target company's overall performance, thus, becoming critical for risk and compliance managers. If investors and lenders can see that a company is running well and is managing risks, they have confidence that there is a lower risk of default thus, leading to a risk of losing investors due to lack of ESG awareness.

Now-a-days consumers are willing to pay extra for sustainable products. Purchase decisions are being made after examining the moral values and assessing the socially responsible operations of a company. Thus, companies in addition to maintenance of the quality and cost of their products, are also expected to establish sustainable means and methods in order to win and retain customers.

The aftermath of the COVID-19 pandemic has given businesses a vision to re-examine their operations and its impact on mother nature. Consequently, ESG compliance has picked-up as Governments are now committed to a 'green' recovery.

ESG approach is more than just a strategy, and it focuses on creating practical plans and actions to achieve real results. It aims at incorporating the sustainable approach by combining resources and technology together rather than just pointing on disclosures alone.

ESG with its measurable value has a transforming impact and makes actual change whether operational, functional, cultural and ethical actions happen as per the needs of society and community.

ESG reporting is designed for clear and transparent disclosures with facts and figures which eliminates

ambiguity and increases trust in the company for long run.

These factors and advantages display the need for companies to provide more ESG-related disclosures.

Board, Management, Audit Committee and the Role of the Auditor

The ESG journey requires commitment and engagement across the business.

Directors in order to effectively perform their oversight duties must understand the ESG approach of the company and the pattern in which it is integrated into operations and strategy, along with the key metrics in reporting requirements.

Management of the company including the CEO, CFO, and COO, should clearly define ESG goals and transform organization functioning to align with their operations to meet their ESG objectives.

Audit committee members are responsible for examining the reporting of material information to investors. Audit committees should aim to cross-question about the strategy, processes and controls followed over measuring data and reporting and improve and maintain the quality and standards.

Auditors are best resort to support maintaining the quality of ESG reporting. They assess whether measurement parameters are transparent and consistently followed, assure the design and implementation of policies and procedures for data

collection and reporting and validate the numbers reported.

Conclusion

Starting with the initial initiative in 2009, India has travelled quite a distance with respect to ESG, though a lot more needs to be done to meet the Sustainable Development Goals (SDGs) by 2030.

ESG is going to play a transformational role in how the environment is managed going forwards. ESG needs to be embedded in the functioning at all levels, through design, building, decision making and disposal. As the world recovers from COVID-19, investors, consumers, managers and employees require clear, transparent, ethical business practices form the basic motive and to align business with community concerns and sustainability.

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Bank Quest included in UGC CARE List of Journals

IIBF's Quarterly Journal, Bank Quest has been included in the UGC CARE list of Journals. The University Grants Commission (UGC) had established a "Cell for Journals Analysis" at the Centre for Publication Ethics (CPE), Savitribai Phule Pune University (SPPU) to create and maintain the UGC-CARE (UGC - Consortium for Academic and Research Ethics). As per UGC's notice, research publications only from journals indexed in UGC CARE list should be used for all academic purposes.