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CUTS International
www.cuts-international.org

The Environmental, Social, and Governance (ESG) Model of Workers' Welfare

Integrating Social through Investments

The ESG-centric approach combined with socially responsible investing is creating a paradigm shift for investors' interest across the globe. Considering this as one of the tipping points, CUTS international, through this discussion paper under *Institutionalising good and better jobs in India (GrowJobs-II)*, is building a narrative towards investors integrating social considerations into their strategic investments. At the same time, the advantages of factoring ESG proactively in business go much beyond increasing revenue.

The paper unpacks the rise in ESG infrastructure and channel investments. It stumbles upon the sustainable ways of investing and draws a comparison in two, with overwhelmingly supporting ESG factors for a quick movement rather than sustainable growth and development, which is more time-consuming and futuristic. Further, the paper breaks the entire gamut of responsible investing and shareholder activism to explore the following two key postulates –

A. Understand the thought process about considering workers as an investment for "*human capital formation*" and not just as a cost burden; and
B. Explore if workers' welfare could be seen as a vital component of Investment decisions.

The social considerations focus on positively influencing the society at significant and improving outcomes for all the stakeholders for growth towards a more sustainable future. We need to create an ESG culture, an ecosystem where all the policies are first driven by a sustainable way of working and conducting a business. It cannot be an individual's responsibility to make the change, and it is for all the stakeholders to come together and form an alliance for a better tomorrow.

1. Introduction To ESG

Background

As global emergencies have set multiple paradigms, it is compelling us to learn a more sustainable and resilient way of working. It pushes the companies' conscience to find answers to persisting problems like welfare, workers' rights, and climate change, triggering a rebalance.

The pandemic offered a catastrophic reminder of the need to prepare for large-scale threats to sustainability investors. The worldwide public health crisis claimed millions of lives, crippled economies, and disrupted every aspect of daily life. It also brought into stark focus other systemic vulnerabilities, such as climate change, socio-economic inequality, and job loss. It thus became imperative to restructure the economies in the sustainable ways of working. A strong ESG proposition has the potential to create that.

Threatened by the manifestation, companies are learning new ways of perceiving socio-economic relations to make profits and adapt sustainable working post-pandemic. There is a transition of looking at companies' financial ratios traditionally to an indicator demonstrated through a robust value yardstick such as ESGs of any business.

Top companies with ESG acquiescence statistically have shown higher performance gains than others. Thus, it is imperative to value them on ESGs and, most notably, its (S)social aspect.

With the increase in digitisation, and working culture across the economies, forms of financing have also gained momentum. A growing number of institutional investors and fund incorporators are moving towards more sustainable forms of investments. ESG disclosures are becoming one of the many ways to look at such investment approaches.

While the mainstreaming of forms of sustainable finance is a welcome development, the terminology and practices associated with ESG investing vary considerably. One reason is that ESG investing has evolved from socially responsible investment philosophies into a distinct form of responsible investing.

While definitions differ regarding the form of consideration of ESG risks, ESG investing is an approach that seeks to incorporate environmental, social, and governance factors into asset allocation and risk decisions to generate sustainable, long-term financial returns. ESG investors have expressed support for ways to help transition financial systems toward "greener," low-carbon economies.

Rise in ESG Investments

Sustainable investment and relevant ESG factors will guide and dominate investors globally as they look for their portfolio companies. The size of these funds is inevitably increasing in India.

According to Bloomberg Intelligence, by 2025, ESG assets will increase to $53 trillion. An inflow of $185.3 billion into sustainability funds was also reported by Morningstar in the first quarter of 2021, a solid bump of over 17% since 2020 Quarter 4.[1]

India, too is slowly picking up the ESG momentum in attracting foreign equity. With more than 80% of the investors expressing their interest in sustainable investing, the studies show a fast shift in the outlook. In the last year, Nifty 100 peers and Nifty 50 indices have been outperformed by Nifty 100 ESG. This shows the Indian Investors' confidence in impact investing (ESG).[2]The focus should not only be on the concerns that plague our countries, such as climate change, post-pandemic recovery, and gender inequality, but also on innovative approaches to sustained skilling and workers' welfare only for growth trajectory and inclusive development.

A robust social investment should be defined by the investment in its human capital for better productivity and economic development. The investment companies need to take a substantial

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1 ESG Assets Rising to $50 Trillion Will Reshape $140.5 Trillion of Global AUM by 2025, Finds Bloomberg Intelligence | Press

2 Nifty Esg Beats Nifty50 In Last One Year As Indians Take To Conscious Investing | Mint

look at the Social of ESG to involve workers' welfare and skill development as part of their portfolio investments. The ESG scores play two roles: one affects investors' preferences, and the second provides information about the company's ethics and philosophies.

The policy brief will highlight the key aspects of ESGs, along with framework and disclosure formats. While looking into all the three pillars of ESG, the focus will be on the (S)social parameter and building a narrative towards it. It will also look into the investors' strategies to invest in their portfolio companies sustainably. It will also touch upon the need for human capital formation.

It will further look into one of the key postulates as identified towards building a narrative in good and better jobs: inclusive finance for workers' welfare (GrowJobs-II),[3] a project undertaken at CUTS International.[4] It explores whether workers' welfare could be seen as an important component of Investment decisions.

3 Exploring alternate models of economic growth inclusive finance and worker welfare: Grow Jobs II

4 CUTS International

2. Understanding the ESG Discourse & Its Pillars

Evolution of the ESG Discourse

The roots of ESG investments can be traced back to the socially responsible investing trends in 1960. Investors have started to look at companies' portfolios and business activities like tobacco production or South African apartheid regime involvement.[5]

ESG issue was first mentioned in the 2006 United Nations' Principles for Responsible Investment (PRI) report. For the first time, ESG criteria were required to be incorporated in the financial evaluations of companies as a step focused on sustainable investments.

At the annual meeting of the World Economic Forum (WEF) in 2020 at Davos, the International Business Council (IBC), along with the Big Four accounting firms (Deloitte, PwC, KPMG, and Ernst & Young), took a step in accelerating the ESG transformation by establishing a set standard of measurements of metrics framework for companies to report their results within the new 'stakeholder capitalism approach.'[6]

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5 The Evolution of ESG Investing - MSCI.

6 Demystifying ESG: Its History & Current Status,

The metrics under the WEF framework were centered around four key areas: principles of governance (led by Deloitte), planet (conducted by PwC), people (led by KPMG), and prosperity (led by Ernst & Young).[7] The WEF framework is annexed as *Annexure 2*.

Until the mid-2010s, the investors did not pay heed to ESG data of a Company as a consideration for their investment. The key information about companies includes their carbon footprints, labour policies, board makeup, etc. Investors widely use this data to direct investments, becoming an investment parameter.

The relevance and urgency of ESG are now well established, and there is no divergent discourse on the need for its universal applicability. ESGs also gained importance in the light of the United Nations Sustainable Development Goals (SDGs). These goals were formulated as an urgent step toward an inclusive and better future. ESGs enable coordinated and continuous adoption of the framework of the goals, which will allow meaningful reform in society and the ecosystem.

> **"Everyone must understand why we are doing this. It is not because it is a regulatory obligation or trend."**
>
> – ***Ana Rivero Fernández***[8]

ESGs have changed the philosophy of business and investments. Now businesses need to make a sustained effort to ensure that their actions, operations, and profits are not at the cost of a negative environmental or social impact. ESGs are at the center of attaching this responsibility to the businesses. ESGs have even made way for shareholder activism.

Stakeholders whose interests in a traditional business sense were limited to just profits and return on investments (RoI) are now examining ESG criteria before investing. These stakeholders include investors, fund managers, financial institutions, and the general public, seeking information on companies' performance on ESG metrics. This has made ESG a factor at all levels of a corporate value chain.

The investors use the ESG data to screen out companies with poor ESG performers. This is based on the valid assumption that the factors that cause the low ESG ratings will directly impact their weak financial results. Some investors seek companies with high ESG scores for ethical reasons like investing in "green funds" and superior financial results. In some instances, investors have incorporated ESG data into the fundamental analysis. Some have the data as activism for the betterment of corporate practices.

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7 Measuring Stakeholder Capitalism Towards Common Metrics and Consistent Reporting of Sustainable Value, Creation

8 Head of investment content and ESG at Santander Asset Management

Therefore, the ESG performance of a company is a conscious business decision towards the environment, social, and governance elements. The developing shareholder activism makes sure that investor interests are at the forefront while steering the change in business conduct to align with ESG norms.

In India, the recent development around ESG has been substantial. The corporate regulatory body SEBI has made the Business Responsibility and Sustainability Report (BRSR) applicable to the top 1000 listed companies. Under this, the companies have to disclose ESG-related information mandatorily. For the first time, ESG compliance has become mandatory in India.

This report will also serve as the base document for various stakeholders, especially investors, to bring about comparability amongst companies. As per SEBI's proposal, from October 01, 2022, Asset Management Companies (AMCs) shall invest only in securities with BRSR disclosures. The disclosure norms for domestic ESG mutual fund schemes are in the works and will be introduced.

Three Pillars of ESG

A. **Environmental:** This factor determines how a company uses or abuses natural resources and, in effect, how the company's business operations impact the environment both directly and indirectly. The company's operations have to be sustainable, and its profits should not be earned on any environmental harm. Thus, the factor denotes how companies manage their environmental impact that has far-reaching consequences on society and the planet.

Environmental: Considers how a company performs as a steward of nature.

The resource company uses the waste it discharges, and the consequences on living beings and Company.

This factor includes-

Carbon Emissions, Pollution (Air, Water, Land, Soil), Waste discharge & Land Use, Biodiversity & Ecologically sensitive species & areas, water stress, resource efficiency, and management

B. **Social:** This factor determines how a company manages relationships with the whole ecosystem of society and stakeholders. These include employees, laborers, suppliers, customers, and the local communities. The activities of any business have social impacts; the company needs to ensure that this impact is not adverse. Instead, it adds value to society and the lives of its participants. Thus, the factor denotes how a company fosters its people and contributes to inclusive growth.

Social: Examines how a company manages its relationships with employees, suppliers, customers, and the community.

The company's relationships and the reputation it fosters with people and institutions in the society where they operate. Factors related to a company's practices have a social impact on stakeholders.

This factor includes-

Human Capital Development, Labour Codes & Standards, Product Liability, and consumer protection, Indigenous & Vulnerable Communities, relationships with people & community around the area where the organization operates

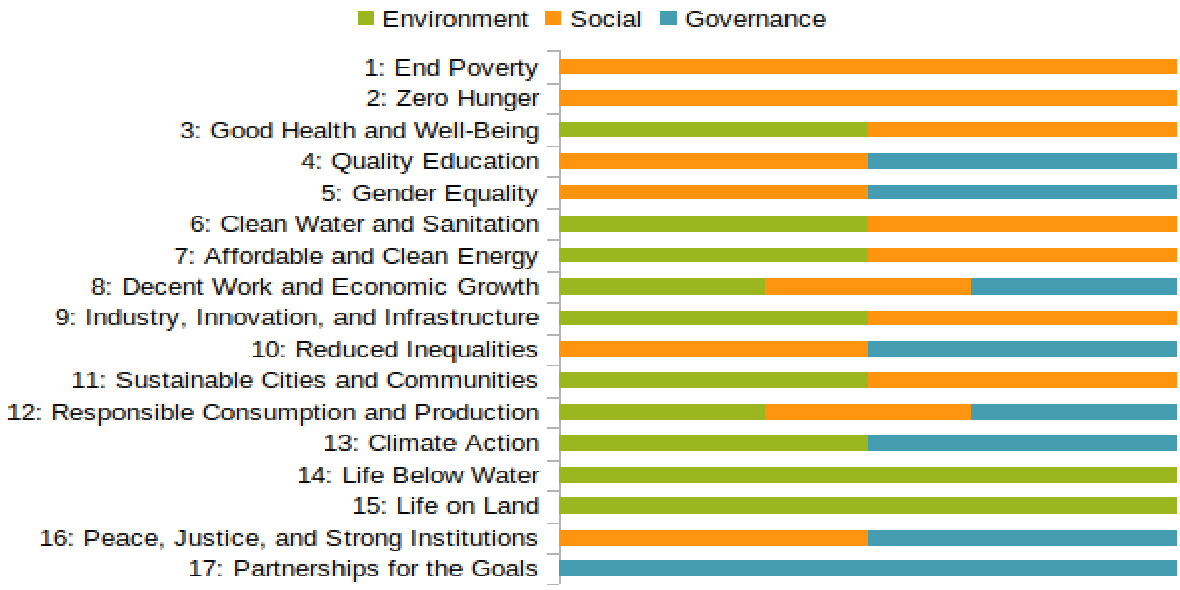
C. **Governance:** The factor that determines the corporate governance aspect of the company. This is determined by the company’s leadership, board diversity, fairness in board remuneration, independence of statutory auditors, audits, financial reporting, and stakeholder engagement. Thus, the factor denotes how companies can stay compliant, ensuring transparency and industry best practices, and dialogue with regulators. It also encompasses the internal system of controls, practices, policies, and procedures to govern and make effective decisions.

Governance: Deals with how a company is governed. The internal system of practices, controls, and procedures your company adopts to govern itself, make effective decisions, comply with the law, and meet the needs of external stakeholders.

This factor includes Business Ethics, Board & Committee, remuneration/incentives, Corruption, Internal system & policies, Compliance, meeting the needs & expectations of stakeholders

Sustainability and ESG

ESG and sustainability are often used interchangeably, and there is a direct relation between these two concepts. While deeply connected, the two concepts are different and work in their separate realms. Both the concepts address environmental and social aspects in terms of future impact. The main difference between ESG and sustainability is that ESG sets specific criteria to define sustainable environmental, social, and governance systems. *Sustainability* is an umbrella term for *doing good* in a business context.[9]



Broad Mapping of 17 UN SDGs with the three pillars of ESG[10]

Countries are together trying to reach the 1.5 degrees temperature goal set by the UN. Additionally, the UN SDGs adopted as part of the 2030 Agenda for Sustainable Development

9 ESG effect | Energy Central
10 ESG to SDGs: Connected Paths to a Sustainable Future – SustainoMetric

are targets to be achieved by countries by 2030. Sustainability, thus, becomes an essential factor in their economic growth, and the private sector is at the centre of a country's economic growth. For every government to achieve its climate change and sustainability goals, the companies operating in the country also have to be held responsible.

This is where ESG reporting integrates the broad sustainability concept with corporate practices. Governments have also pushed for ESG policies, and some have implemented regulations such as carbon taxes. In some countries, the financial and banking regulators have integrated ESG rules into their funding criteria. Therefore, ESG has brought the concept of sustainability to the corporates in a way that they can be held accountable for.

There are critics of the idea who consider the spectrum of SDGs and their targets too complex to be possibly integrated into the existing ESG frameworks and criteria. Nevertheless, the transformative potential of SDGs to influence investor decisions is undeniable. The synchronisation of ESG considerations with the SDGs will expedite achieving the global goals. This also gives investors a good role and opportunity to build relationships with the government as contributors to the SDGs. The space of co-existence and cooperation is a new era of corporate contribution through responsible investing.

Figure 1: SDGs Mapped Against Environmental, Social, and Governance Categories

3. Understanding the 'S' (Social) in ESG

Among the Environmental and Governance factors, the social becomes one of the most interesting and forgotten factors in ESG.

However, just as ESG is an inextricable part of how a business could be conducted, its elements are intertwined. For example, social criteria overlap with environmental standards and governance when companies seek to comply with environmental laws and broader concerns about sustainability.

How can a company manage its relationships with its workforce, the societies in which it operates, and the political environment? It has a lot to do with the company's ideologies on Human capital formation and consideration of workers as an investment rather than a cost burden. This is the central question behind the "S" in ESG investing, which includes evaluating practices and policies adopted by the company for fair and equitable treatment of all stakeholders.

Suppose the other aspects of ESG – environmental and governance risks and opportunities – are primarily concerned with a corporation's effects on the planet or its internal and political functions. In that case, social factors will mainly arise in the relations between a company and people or institutions outside of it. Sustainable investors will try to minimize the risk that societal factors pose to returns. As with ESG investing, showing a preference for companies that pay attention to these social issues can allow investors to reflect their values in investing while also leading to higher and more reliable returns over the long term.

Labour issues also fall under the social aspect of ESG investing. Sometimes, labour disputes or challenges in a business are evident, such as **striking auto workers**. However, these factors can indirectly result from broader economic trends in other cases.

No doubt, quantifying social impact is a challenge. A 2021 Global ESG Survey by BNP Paribas revealed that 51 percent of investors surveyed (covering 356 institutions) found the S to be the most difficult to analyse and embed in investment strategies. The report concluded: "*Data is more difficult to come by, and there is an acute lack of standardization around social metrics. Investors have been willing to accept data that does little to assess the social performance of the companies in which they inves*t." For most investors, S is merely a check-the-box exercise.

Multiple organisations understand the importance of social under ESG; it is pertinent to note what indicators define it. While there are no such indicators as specified, these indicators will depend from organisation to organisation. But the creativity for such will always lead to the formation of Human Capital.

Workforce	Health and Safety	Relationship with local Communities	Data Security and Customer Orientation
Descriptive Analysis			
Disclosure of workforce and various related practices	Disclosure & practices on health & safety of the Company	Disclosure of various other activities related to the society at large	N/A
Assessment Factors			
Workforce details and workforce diversity	Health & safety practices	The company's Corporate Social Responsibility (CSR) expenditure	Cyber/data security of the company
Equal opportunity	Training on safety	Disclosures related to initiatives taken by the company to improve local communities	Company's practices for improving customer relations, their complaints/grievances
Training on skill development	Workers' health	N/A	N/A
Industrial relations	Sexual harassment practices	N/A	N/A

Human Capital Formation

Human Capital is the process of adding the stock of human capital over time. It is developed by creating a skilled, trained, and efficient labour force to provide better healthcare facilities, education, skilling, etc. Highly skilled people have the potential to create new ideas and develop various methods of production and development in the organisation.

Human capital and culture, along with other "invisible assets," make up an estimated 52% of a company's market value. Especially in a competitive employment landscape, thoughtful human capital management practices—or their absence—could have a tangible effect on a company's bottom line.

Employee welfare and well-being have not escaped investors, as investors are making human capital management one of their "engagement priorities.". There is a universal connection between Human Capital Productivity and Income. Whether workers' welfare an essential determinant of any investment decisions?

The connection between investment and human capital, workers' welfare, and skills development are in the shadows. This may be due to the opacity in financial value-chains resulting in complexities in the efficiency of investments and their linkage with workers' welfare and skills development.

Considering this as one of the tipping points in labour sector reforms, it is necessary to investigate if investments, while resulting in profits, can lead to better wages, working conditions, and skills development. Therefore, the need of the hour is to highlight workers' welfare as an investment for human capital formation rather than a cost burden. The inequality between the employed, unemployed and unemployable workforce is not in wages but skills and opportunities. This is primarily reflected in the considerable under-employment that our society is facing.

A framework of indicators for Human Capital Development is annexed as *Annexure 2*.

Sustainable Organisations

In a covid-19 environment, sustainability has been dragged into the spotlight again, and it will keep attracting significantly greater attention from investors than it has to date. Where there was desperate attention on sustainable ways of running a business, it has become a transparent corporate element and a pertinent pillar of a company's ESG credentials. It Is incumbent on the companies to grasp the implication and the meaning of a healthy, sustainable way of doing business and simultaneously communicate the activities to all the stakeholders.

> **"Investors, for their part, are driving the demand. Many prominent money managers — from banks and pension funds to family offices — have all made sustainable investing a priority, one that many plans to build on. Some investors are shifting dollars to socially responsible strategies to help contain the climate crisis, while others want to use the investment as a hedge."**
>
> – ***The Wall Street Journal***

It is irrelevant to see if the company is public, private, or even NGO. The crux is to create sustainable companies. For example, companies like Apple, Britannia, Colgate, and many others have demonstrated creating a sustainable company, to which they also have a competitive advantage.

One of the essential factors in creating a sustainable way of doing business is the need to focus on building future leaders. We need to skill, reskill and upskill the talent to create an ecosystem in an industrial space. It should not be the responsibility of only a few organisations or government departments, and the responsibility should be on all the relevant stakeholders who form part of the procedure. In most cases, 50% of these recruits leave the company, but the commitment of these firms to train future leaders never wanes.[11] for example,

Second, companies need a strong strategy and vision also to include social. We need companies with workers' welfare on their priorities and evidently, produce them through their vision and process. For example, J R D Tata started 94 companies but still created wealth for the country because he defined his organization's vision as one that serves the nation.

Third, excellent work culture and job security. It will help the employees feel more engaged in the company's development. A scientific performance review, rewards and recognitions, and a decent salary make the employee feel secure. It will help in the formation of Human capital.

Social issue assessment does not stop at a business' front doors. Companies are increasingly held accountable for their supply chain impacts. For example, stakeholders are increasingly aware of the human rights issues associated with sourcing raw materials like cotton or cocoa from suppliers or jurisdictions known for violating human rights or child labour standards. Exposure to these kinds of risks equates to financial risk. Sustainable investors aim to minimize risks to their returns that societal factors might threaten.

It's time to fix the S in ESG and consider socially responsible investments. It's one of the ways companies can give back to society by making up for the lost jobs in the pandemic, helping the economies recover by creating employment, and generating good and better jobs, i.e., the quality of the jobs over quantity.

This points to the need for a better understanding of ESG among companies and investors; and, of most immediate relevance, what companies should focus on to enhance their 'S' credentials.

[11] Building sustainable organisations By Ashoke K Maitra| New Indian Express, Published: May 21, 2022, 01:16 AM

4. Implementing the ESG Framework and Metrics in an Organisation Through ESG Disclosures

ESG Metrics	ESG Disclosures	ESG Framework
ESG metrics assess a company's exposure to a range of ESG risks. These metrics can be used for ESG integration approaches, such as benchmarking and scenario analysis.	It refers to the disclosure of data relating to an organisation's ESG	A framework is a system or set of policies, processes, and procedures used by an organisation to ensure that it can fulfill the ESG related tasks required to achieve its ESG objectives

ESG Metrics

ESG metrics allow a company to measure and investors to assess the company’s environmental, social, and governance performance.

- **Bloomberg:** In 2016, Bloomberg had over 12,200 ESG customers, providing ESG data to mainstream investors worldwide. It evaluates companies on an annual basis, out of a score of a hundred, collecting public ESG information on 120 indicators which include carbon emissions, pollution, waste disposal, supply chain, discrimination, diversity, community relations, human rights, cumulative voting, executive compensation, shareholders’ rights, etc.

- **MSCI Sustainable Impact Index:** This Index aims to identify companies that derive at least 50% of their revenues from products and services that address environmental and social challenges as defined by a specified set of themes. It is designed to deliver a broad set of standardized ESG data and simple metrics comparable across a broad universe of 8,500 companies.

- **DJSI (Dow Jones Sustainability Indices):** These are float-adjusted market capitalization-weighted indices that measure the performance of companies selected with ESG criteria using a best-in-class approach.

- **ECOVADIS:** It is a worldwide trusted provider of business sustainability/ESG ratings for global supply chains. The EcoVadis platform guides organizations by assessing the environmental, social, and ethical risks and efforts associated with their supply chains and own business model. More than 20,000 companies use EcoVadis. Buyers ask their suppliers to be rated by EcoVadis' experts on their sustainability performance following EcoVadis' assessment methodology (150 purchasing categories, 110 countries, and 21 CSR indicators).

Frameworks

The framework is a system or set of policies, processes, and procedures used by an organization to ensure that it can fulfil the ESG-related tasks required to achieve its ESG objectives.

i) ISO 26000: It helps clarify social responsibility, allows businesses and organisations to translate principles into effective actions, and shares best practices relating to social responsibility globally. It is aimed at all organisations regardless of their activity, size, or location.

7 Principles of ISO 26000

● Accountability ● Transparency ● Ethical behaviour ● Respect for stakeholder interests ● Respect for the rule of law ● Respect for international norms of behavior ● Respect for human rights

ii) UNGC (United Nations Global Compact): It is a non-binding United Nations pact to encourage businesses and firms worldwide to adopt sustainable and socially responsible policies and report on their implementation.[12] It covers 16,169 companies and 162 countries and has 91,694 reports.

10 principles of UNGC

P1: Businesses should support and respect the protection of internationally proclaimed human rights

P2: Businesses should make sure that they are not complicit in human rights abuses

P3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining

P4: Businesses should support the elimination of all forms of forced and compulsory labour

P5: Businesses should uphold the effective abolition of child labour

P6: Businesses should keep the elimination of discrimination in respect of employment and occupation

P7: Businesses should support a precautionary approach to environmental challenges

12 The world's largest corporate sustainability initiative

P8: Businesses should undertake initiatives to promote greater environmental responsibility

P9: Businesses should encourage the development and diffusion of environmentally friendly technologies

P10: Businesses should work against corruption in all its forms, including extortion and bribery

ESG Disclosures are evolving

It refers to the disclosure of data relating to an organization's environmental, social, and governance performance.

1. **Business Responsibility and Sustainability Report (BRSR):** BRSR was introduced through a SEBI circular dated May 10, 2021. It is a more comprehensive disclosure framework than the Business Responsibility Report (BRR), applicable until now. BRSR is questionnaire-based, requiring quantitative and qualitative data. Disclosures on climate and social (employees, consumers, and communities) related entity issues have been significantly enhanced and more granular. SEBI has proposed that from October 01, 2022, AMCs shall invest only in securities with BRSR disclosures. Disclosure norms for domestic ESG mutual fund schemes would also be introduced. As compliance has become mandatory for the first time for top 501-1000 listed companies.

2. **The National Guidelines on Responsible Business Conduct, 2018 (NGRBC)** improve the existing National Voluntary Guidelines on Social, Environmental & Economic Responsibilities of Business, 2011 (NVGs). The NGRBC are designed to be used by all businesses, irrespective of their ownership, size, sector, structure, or location. It is expected that all businesses investing or operating in India, including foreign multinational corporations (MNCs), will follow these guidelines.

3. **Global Reporting Initiative (GRI)**: It is an international Independent not-for-profit organization that has pioneered sustainability reporting since 1997. It was the first set of guidelines that encouraged businesses to report on Sustainability issues. GRI reports are produced in more than 100 countries. Recently, the GRI New Universal Standards were released in October 2021. These will come into effect on January 01, 2023, but earlier adoption by companies is encouraged.

Lessons from India

Reporting Regulations

- Disclosure of Cash Flow Statement (Clause 32)
- Compliance with Takeover Code (Clause 40B)
- Corporate governance report (Clause 49)
- Compliance with Accounting Standards issued by the ICAI (Clause 50).
- CSR Report
- Business Responsibility Report
- Business Responsibility &
- Sustainability Report

Governance

- Implementation of Kotak Committee recommendations on corporate governance
- Companies Act 2013
- Adoption of IND AS a structural shift in reporting norms to global standards
- Insolvency and Bankruptcy Code (IBC)
- Whistle Blower Mechanism
- "Clause 49" in Equity Listing Agreement: Board composition, code of conduct, etc
- Corporate Governance-Voluntary Guidelines 2009

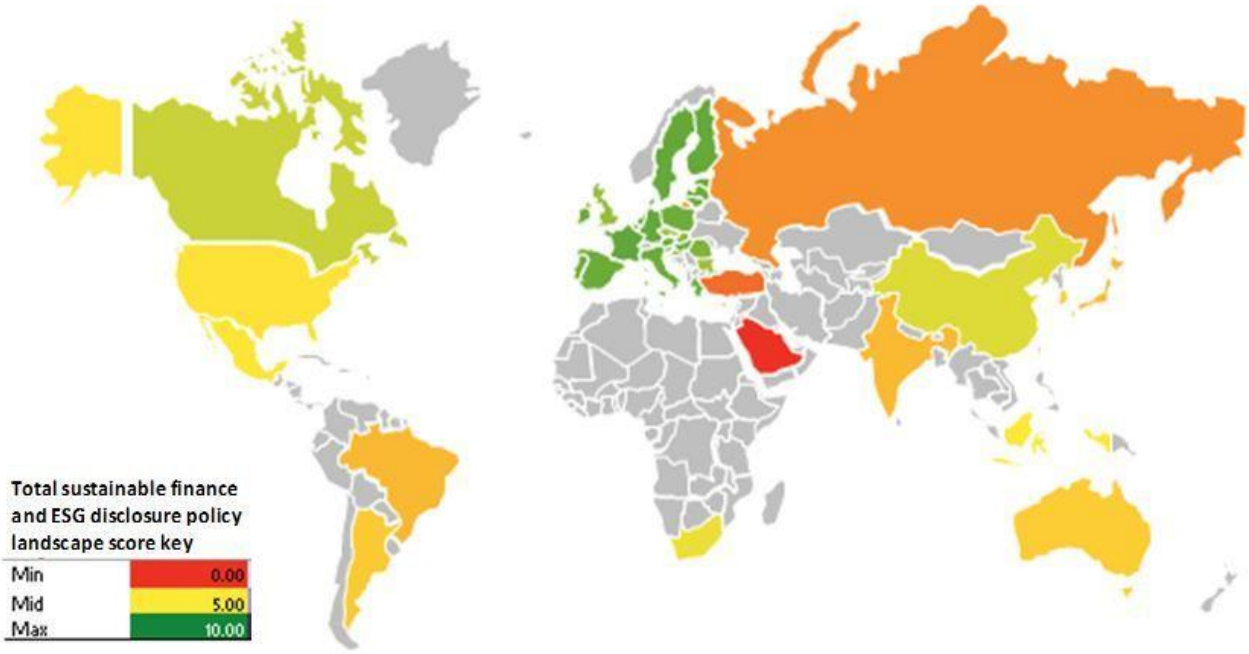
Social

- CSR Act 2013
- Protection of Human Rights Act 1993
- Factories Act, 1948
- Rehabilitation and Resettlement Act, 2013
- Forest Rights Act, 2006
- Panchayats (Extension to the Scheduled Areas) Act, 1996
- Labour Codes 2021

Environment

- FAME II scheme for EV adoption
- Exemption from road permit for EV and CNG vehicles
- Renewable energy subsidies
- The National Green Tribunal Act, 2010
- The Air (Prevention and Control of Pollution) Act, 1981
- The Water (Prevention and Control of Pollution) Act, 1974
- The Environment Protection Act, 1986
- The Hazardous Waste Management Regulations, etc.
- Urea subsidy

Figure 1: G-20 country scores for sustainable finance and ESG disclosure policies



Source: BloombergNEF, PRI, NGFS, Coalition of Finance Ministers for Climate Action, IPSF, policy documents. Note: only mandatory policies assessed (including comply-or-explain).

How is ESG reporting different from Sustainable reporting – ESG Rating and Indices

S.no.	Why ESG
1.	Attract better investors & customers due to transparency shown through reporting
2.	Attract, Engage & Retain the best talent and low employee turnover
3.	Competitive advantage & Brand recognition
4.	Better operational performance
5.	Reduced environment, social & governance risks, and impacts
6.	Sustainable, long-term financial returns
7.	Build trust with investors, customers & general public as the organization shares values and knowledge through ESG Report.

5. Investors' Preferences

The investor's interest and preferences over the period in ESG and other sustainable goals increased manifold. Additionally, Covid-19 played an essential role in triggering that understanding.

Further, inventors play a vital role in building the narrative for society under ESG. It is suggested that investors should make it mandatory for their portfolio companies to invest a certain amount of investments such companies are acquiring for workers' welfare. A list of investment organisations that consider investment towards workers' interest in skill development and other benefits provided in the organisation is annexed as *Annexure 3*.

Socially Responsible Investing (SRI)

Socially responsible investing (SRI) goes further than ESG by actively eliminating or selecting investments according to specific ethical guidelines. The underlying motive could be religion, personal values, or political beliefs. Unlike ESG analysis which shapes valuations, SRI uses ESG factors to apply negative or positive screens on the investment universe.

To counter the rise of greenwashing, in March 2021, the EU implemented the **Sustainable Finance Disclosure Regulation (SFDR)**. This requires financial providers and advisers to disclose all of the information investors need to make investment choices according to their sustainability goals.

For example, an investor may wish to avoid any mutual fund or exchange-traded fund (ETF) that invests in companies engaged in firearms production because they hold anti-conflict beliefs. Alternatively, an investor may allocate a fixed portion of their portfolio to companies that contribute to charitable causes. Profit-making is still essential for clients engaged in socially responsible investing but must be balanced against principles. The goal is to generate returns without violating one's social conscience. Other negative SRI screens include:

1. Alcohol, tobacco, and other addictive substances
2. Gambling
3. Production of weapons and defence tools
4. Terrorism affiliations
5. Human rights and labour violations
6. Environmental damage

6. Conclusion

Post pandemic recovery, systemic vulnerabilities, climate change, Socio-economic inequality, and job loss have become the heart of causes that plagues the economies. The latest 2022 report by the Intergovernmental Panel on Climate Change (IPCC) made clear the devastating impact that human activity has had on the planet. It has also been made clear that directing investment towards sustainable finance could significantly positively impact climate change. The moment is driven by the need to build a more sustainable economy and society for future generations - and it needs to pick up speed.

We need to create an ESG culture, an ecosystem where all the policies are first driven by a sustainable way of working and conducting a business. It cannot be an individual's responsibility to make the change; it is for all the stakeholders to come together and form an alliance for a better tomorrow. Investors need to take centre stage to adopt sustainable policies in a business. However, it is up to the industry, regulators, and companies to collaborate and provide investors with the reassurance they need to put their money to work in ways that will create a healthier and more sustainable planet.

With sustainable investments, working towards human capital growth and formation will only ease running a business. While sustainable investments are one of the ways to conduct a business, keeping in mind the welfare of the workers is another way to attract growth. We need the quality of jobs over the quantity to ensure decent working conditions. Growth in human Capital through skill development and other factors are equally important for working for a company. It is the step toward developing and understanding S (social) under ESG, which is in the shadows of Environment and Governance.

There already is a push from external factors, and the need of the hour is a quick pull for such policies from stakeholders.

"When ESG data is consistent and mainstream, the sustainable investment will become more science than an art."

– ***Ana Rivero Fernández***[13]

ISSUES FOR FURTHER DISCUSSION

- ✓ Deepening and understanding of the thought process about considering workers as an investment for "human capital formation" and not just as a cost burden
- ✓ Explore if workers' welfare could be an essential component of investment decisions. What role can investors play?
- ✓ Rethinking and deliberating the 'S' factor of ESG
- ✓ The need to develop a global index for ESG parameters, which would rank countries as per their performance
- ✓ Extend Regulatory requirements for mandatory ESG disclosures by all companies.

[13] Head of investment content and ESG at Santander Asset Management

ANNEXURES

Annexure 1

WEF Framework

Theme	Core Metric
Principals of Governance	**Setting Purpose**: Company has stated a purpose linked to societal benefit/core benefit
	Board Composition: Tenure, positions and commitments, gender, membership of under-represented social groups; stakeholder representation
	Impact of Material Issues on Stakeholders: List material topics and how they impact stakeholders
	Anti-Corruption, Anti-Money Laundering, Anti-Harassment: Percentage have received training on all policies and procedures. Number of confirmed incidents
	Protected ethics advice & reporting Mechanisms: Advice, ethical and lawful behavior, integrity
	Integrating Risk & Opportunity into Business Process: Risk factor disclosures as opposed to generic sector risks. Board respect of these risks overtime: data security, the number of data breaches
Environmental	**Greenhouse Gas (GHG) Emissions**: Estimate and report upstream and downstream emissions where material
	TCFD-Aligned Reporting on Material Climate Risks & Opportunities: If climate change is material, disclose strategy, metrics/ targets, and company committed targets
	Land use & ecological sensitivity: Report on land use, affected annual change in area, Red List species present
	Fresh Water Consumption in Water Stressed Areas: Estimate and report for upstream and downstream supply on mega-liters of fresh water
Human Capital	**Gender Pay Equality**: Ratio of salary and remuneration of women to men
	Diversity & Inclusion: Percentage of employees by category – age, gender, etc.
	Wage Level: Ratio of entry level wage compared to local minimum wage
	Health & Safety: Injury Rate / Absentee Rate
	Training Provided: Number of trainings provided divided by the number of employees
Prosperity	**Net Number of Jobs Created**: Total number of new employee hires by age, gender, and region. Rate of employee turnover
	Net Economic Contribution: Financial assistance received from tax breaks, subsidies, investment grants, etc.
	Innovation in better products & services: R&D spend ratio
	Community Investment: Chartable gifts and community partnerships; time contribution.

Annexure 2

Indicators for Human Capital Development [14]

and its alignment with Social under ESG

	Domain	Explanation	Existing benchmark(s) in India (formal)	Indicators (formal and informal)
1.	**Education, Skills, and Learning**	The organisation should have policies for the skill development of workers. The employer should provide on-the-job training to the workers. These skilling activities should increase the employability and productivity of the workers.	Labour laws, Employability of workers, demand for better-skilled workers, mobility of workers	- Opportunities for Skill Enhancement - Apprenticeship programs - The minimum educational requirement for the job - Acquiring and applying digital skills - Creating a skill ecosystem
2.	**Decent (safe and secure) Working Conditions**	Working hours, occupational safety, and work-life balance affect the productivity of workers and their value as human capital. Say the employees in the decision-making for the organisation's policies is also an essential factor. Employees should have fair opportunities and dignified working conditions	Average working hours for workers in that sector The employer gives safety equipment and protection measures Bargaining power and opportunities for the workers	- Average working hours - A safe working environment for the workers - Protective equipment provided by the employer - The collective voice of the workers - Anti-discrimination policies
3.	**Social Protection**	Social security measures are mandated by law, as well as additional steps provided by the employer are indicative of the value of the workforce and play	of Labour Laws, Social security benefits like health and life insurance, pension, gratuity, provident fund,	- Schemes, Insurance, and other benefits (Pension, Health, etc.) - Paid fixed leaves

[14] A new framework for valuing human capital | World Economic Forum

	Domain	Explanation	Existing benchmark(s) in India (formal)	Indicators (formal and informal)
		a role in retaining workers	paid leaves, maternity benefits, etc	- Written contract (Fixed Term Contract) - Diversity and Inclusion - Corporate governance - No. of days employed in a year
4.	**Income**	A competitive and fair wage structure should be in place. For motivating employees and rewarding them for good work, and wage premiums linked to their performance.	The government stipulates minimum wages. Policies such as bonuses, performance-linked pay, increments, and overtime pay are in place in many organisations	- From 'minimum wages' to 'living wages' - Performance linked wage premiums - Bonus and Overtime pay(s).
5.	**Job Satisfaction**	The worker should feel reasonably satisfied at the job	N/A	- Perception of Prospects - An attrition rate of an organisation - Other things the worker values (peer network, nature of work) - Voice/Agency - Good Governance - Company's mission statement

Annexure 3

Investment Institutions

Fund	State	Origin	Policy
Government Pension Fund of Norway	Norway	Oil & Gas	**ESG:** To support the ethical screening process, the Council on Ethics works with RepRisk ESG Business Intelligence, a global research firm and provider of ESG risk data. RepRisk monitors the Norwegian Pension Fund's portfolio companies for issues, such as severe human rights violations, particularly regarding child labor and forced labour. **Human Rights:** The Fund has **Human Rights policies**
Domini Impact Investments	-	-	ESG investment advisor recognises the importance of employee relations as a social factor. Domini characterises employees as "perhaps the most critical" of the "key stakeholder groups that corporations depend upon to operate and generate profits." In its investment selection process and shareholder engagement efforts, Domini emphasises compensation, diversity, training, unionisation, and health and safety issues.
Domini European PacAsia Social Equity	-	-	Finds itself in Socially Responsible investing and positively invests in Labour relations, Human rights, and Employment Equality.
Robeco	-	Offers an extensive range of active investments, from equities to bonds	Robeco has been at the forefront of sustainable investing since its first sustainable investing product in 1995. The global crisis that erupted in 2020 offered the opportunity to address the environmental, social, and governance issues fundamental to a sustainable

Fund	State	Origin	Policy
			recovery. Robeco's Sustainability Report 2020. Therefore, the investment industry's focus is further shifting from solely creating wealth to creating wealth and well-being.
Temasek Holdings	Singapore	Non-commodity	**ESG:** ESG framework helps us identify sustainability-related risks and opportunities in the company's investments and the portfolio it owns. **Skilling:** Decent jobs and diverse and inclusive workplaces are foundational to resilient communities. The company encourages portfolio companies to upskill and reskill their workforce.
Investment Corporation of Dubai	UAE	Oil & Gas	**ESG:** Adopting an effective Environmental, Social, and Governance (ESG) framework is critical to ensuring alignment between our vision and actions. **Skilling:** None
BlackRock	NY	-	**ESG:** BlackRock has sought to position itself as an industry leader in ESG
National Investment and Infrastructure Fund	India	Infrastructure investment	**ESG:** The Group works closely with the investment teams with oversight responsibility of the company's portfolio companies and funds to drive ESG initiatives.
Omnivore[15]	India	Agriculture and Food Systems	**1. Impact metrics** **a. Transformative capacity:** Sales to resilient (organised) value chains- processors, organised aggregators, exporters (USD)

[15] Omnivore Impact Policy

Fund	State	Origin	Policy
			b. **Employment Generation:** Direct employment within portfolio companies (SDG-8) c. **Gender Impact:** Women's Employment rate (SDG -5)
Tata Sons	Mumbai, India	Education, health, livelihood generation, and art and culture	The Tata philosophy of management has always been, and is today more than ever, that corporate enterprises must be managed not merely in the interests of their owners but **equally in those of their employees,** of the consumers of their products, of the local community and finally of the country as a whole.

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