



On the environment, social and governance agenda

April 2022

home.kpmg/in



With a surge in the environmental, economic and public health crises, along with active stakeholder dialogue, ESG has emerged as the focal point for countries, organisations and communities across the world. At COP26, countries came forward to affirm their commitment towards net zero by 2050 and to curb their carbon footprint by 2030, along with supporting reduced deforestation and coal consumption.¹ Furthermore, to achieve these goals and targets, financial institutions have stepped up and announced a myriad of initiatives to seamlessly support the transition to a green economy.²

India has also observed an evolving ESG landscape and has paved the way for businesses to integrate, materialise and execute measures for key ESG issues which have a significant impact on their business operations as well as the value chain. The ESG regulatory landscape of India has also evolved in the last decade with Corporate Social Responsibility (CSR) being mandated in the India Companies Act 2013, as well as, the Ministry of Corporate Affairs (MCA) publishing National Voluntary Guidelines (NVGs) in 2011 to encourage ESG disclosures. MCA further revised the NVGs to the National Guidelines on Responsible Business Conduct (NGRBC) in 2019, incorporating additional material aspects across the ESG spectrum. Further, MCA prescribed a new format for Business Responsibility and Sustainability Report (BRSR) in 2020, applicable to the top 1,000 listed companies by market capitalisation. The Stock Exchange Board of India (SEBI) has also mandated the top 1000 listed companies, to report on the BRSR framework from 2023.³ SEBI has additionally proposed a regulatory framework for ESG ratings providers to encourage standardisation and increase transparency on methodologies employed or rating process, classification of sectors and key performance indicators, among others.⁴

The sustainability reporting rate in India stood at 98 per cent in 2020.⁵ While disclosures assist organisations to provide an overview of their overall ESG practices, certain ESG parameters like climate change, diversity & inclusion, human rights, occupational health & safety, learning & development and ESG governance have gained substantial momentum in the past decade.

It is recommended that the Board should formulate a specific committee which also addresses key ESG concerns and drives effective implementation of ESG initiatives. Key parameters of consideration for establishing an ESG committee may include:

1. Should the company establish a management-level or board-level ESG committee?
2. What is the role of the committee in setting the organization's purpose, value, ESG strategy and risk management framework?
3. Are the committee members regularly updated and assessed on their knowledge and expertise in the ESG domain?
4. Has the committee undertaken an ESG maturity assessment to understand the company's current ESG status and identified opportunity areas?
5. What is the committee's approach for steering ESG related issues?
6. Has the committee taken any measure to embed ESG into the organisation's corporate strategy?
7. Does the committee ensure regular oversight across the organisation's ESG disclosures?
8. Does the committee encourage external assurance across ESG disclosures?

1. COP26 Goals, UN Climate Change Conference UK 2021, 24 March 2022

2. On one end, trillions of dollars to invest in climate. On the other, huge and urgent need. How do we connect the dots?, S&P Global, November 2021

3. First Notes, SEBI proposes framework for Environmental, Social and Governance (ESG) rating providers, KPMG, March 2022

4. The Time has come: The KPMG Survey of Sustainability Reporting 2020, KPMG, Mark McKenzie, December 2020



Environment

In order to combat the climate crisis, India has set a target to achieve net zero by 2070. Additionally, the Prime Minister of India, at COP26, announced 5 key goals named as “Panchamrit” to mitigate negative environmental impact.

- Achieving net-zero by 2070
- Reducing total projected carbon emissions by one billion tonnes till 2030
- Increasing renewable energy component to 50 per cent of India's total energy requirements by 2030
- Reducing carbon intensity by 45 per cent by 2030
- Increasing non-fossil energy capacity to reach 500 GW by 2030.

To adjust to the current and expected impacts of climate change, adaptation and mitigation measures such as net-zero targets, carbon reduction targets, reduction in coal consumption, eradication of deforestation and technological interventions are being adopted across organisations. These measures in turn aim to limit global warming to well below 2 degrees Celsius, compared to pre-industrial

levels and build a climate neutral world by mid-century.

For achieving the set agendas, ESG committees need to have climate change impact, mitigation and adaptation initiatives at the top of their minds. They can play a crucial role in adopting and implementing effective ESG measures. Certain areas of consideration for ESG committee may include:

- How does the committee emphasise on the importance of climate change measures, ESG goals and performance across business operations?
- Has the committee set any climate specific goals to contribute towards the Intended Nationally Determined Contribution (INDCs)?
- How does the committee enhance the understanding and awareness of key ESG aspects that could potentially impact business operations and stakeholders?





Social

Along with environmental concerns, social issues also play a key role in driving an organisation's ESG agenda. In 2014, India became the first country to legally mandate Corporate Social Responsibility (CSR) under The Companies Act 2013 of India.⁵ To address the concerns and issues of surrounding communities, CSR was introduced to encourage organisations to spend a minimum of 2 per cent of the average net profits of the past three years for the welfare of communities. This has also enabled organisations to support and augment community wellbeing. Apart from broader community initiatives, organisations have also increased focus on parameters concerning diversity and inclusion, occupational health and safety, learning & development, and human rights across the value chain of their business operations. Material social issues that have gained momentum to be addressed across the value chain of an organisation include, the relationship of an organisation with its workforce, stringent policies for diversity and inclusion and addressing human rights issues, among others. Driving human rights parameters across an organisation in turn allows for effective recognition and respect of civil, political, economic and social rights of each individual, along with providing them opportunities to thrive without discrimination.

Occupational health and safety

The health and safety of employees and workers have always been a priority for organisations. Various initiatives are taken to ensure zero work related injuries and fatalities across business operations. Workplace ergonomics, skill enhancement, cyber security skills and mental wellness have gained momentum as the social landscape of economies continues to further evolve. The Ministry of Labour and Employment, Government of India, declared the National Policy on Safety, Health and Environment at Workplace in 2009, which aims to eliminate the incidence of work-related injuries, diseases, fatalities, disaster and loss of national assets. Furthermore, government and corporate policies that remained focused on occupational health & safety parameters aim to ensure the achievement of a safe and thriving workplace for employees and stakeholders at large.

Skilling of Workforce

To improve the effectiveness of individuals and to encourage professional development across organisations, various trainings, development initiatives and online learning sessions are organised by corporates and Government of India (GOI) at large. The Ministry of Skill Development and Entrepreneurship has launched multiple schemes and initiatives through National Skill



5. National CSR Data portal, Ministry of Corporate Affairs, GOI, 24. March.2022

and Directorate General of Training (DGT). Apart from GOI, the corporate sector has also taken substantive measures to upskill their employees and reduce the attrition rate while equipping them with latest trends of the industry.

With the emerging social concerns and humanitarian crisis, organisations across the world have come forward and put forth measures to establish a socially responsible environment. ESG committees may also consider the following points:

- How does the committee enhance organisation-wide understanding and awareness of key social material topics that impact the business and stakeholders at large?
- How does the committee embed social concerns into the organisation's corporate strategy?
- Should the committee establish a medium- or long-term DEI strategy?

Diversity and inclusion

Diversity at the workplace is not concentrated to the boardroom anymore as the focus of companies and investors is likely to shift towards diversity across the organisation. Post pandemic, corporate boards have enhanced their social outlook and increased commitment towards ESG issues, with diversity and inclusion within the workforce being one of their topmost priorities. Organisations are encouraging commitments towards diversity and inclusion parameters to strengthen workforce commitment and satisfaction. Board members also play a critical role in shaping the organisation's culture across the value chain and enhance social concerns throughout. Key insights into diversity and inclusion parameters have been provided below.

- India scored 0.6 on a scale of 1 in the global gender gap index.
- India ranked 140 among 156 countries on gender gap parameters
- Organisations continue to increase focus on diversity of sexual orientation, people with disabilities and generational diversity.



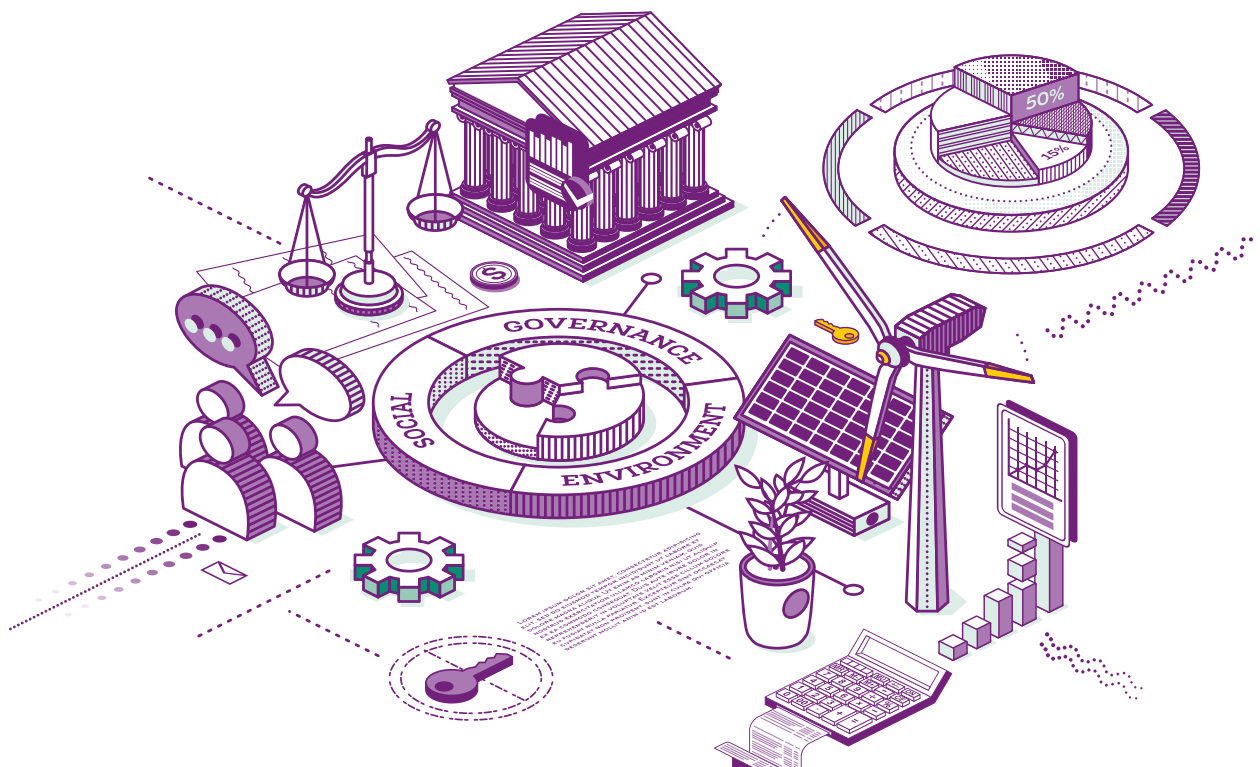


Governance

Along with addressing key environmental and social concerns, the “G” in ESG focuses on yielding better corporate returns. The governance aspects are inclusive of code of business conduct, risk and crisis management, tax strategy, materiality, impact valuation and disclosure. Good governance structures comprise board diversity, effectiveness and experience. Furthermore, focus has been intensified on ESG linked executive compensation as financial incentives play a major role in driving an organisation’s ESG agenda.

Given the critical role of an ESG governance structure, the inclusion of an ESG specific committee can play an integral part in integrating effective ESG performance across the organisation and its disclosures. The ESG committee can further focus on key parameters such as:

- What is the ESG governance framework layout for the organisation?
- Does the committee integrate ESG risks and opportunities into the company’s long-term strategy?
- How does the committee measure and monitor the organisation’s progress towards milestones and goals set as part of the ESG strategy?
- Does the committee integrate ESG goals and milestones effectively into executive compensation plans?



KPMG in India contacts

Ritesh Tiwari

Partner

Board Leadership Center

E: riteshtiwari@kpmg.com

Prathmesh Raichura

Partner

ESG

E: prathmesh@kpmg.com

home.kpmg/in



Follow us on:

kpmg.com/in/socialmedia



The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

KPMG Assurance and Consulting Services LLP, Lodha Excelus, Apollo Mills Compound, NM Joshi Marg, Mahalaxmi, Mumbai - 400 011
Phone: +91 22 3989 6000, Fax: +91 22 3983 6000.

© 2022 KPMG Assurance and Consulting Services LLP, an Indian Limited Liability Partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.

This document is for e-communication only. (002_BRO0422_RU)