

# UNDERSTANDING ESG & REPORTING BASICS

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# UN SDG and Sustainability



- Sustainable Development Goals (SDGs) are a collection of 17 interlinked global goals designed to be a blueprint to achieve a better and more sustainable future for all.
- The SDGs were set up in 2015 by the United Nations General Assembly (UNGA) and are intended to be achieved by the year 2030.



# Sustainable Development Goals

These 17 SDGs namely:

1. No Poverty
2. Zero Hunger
3. Good Health and Well-being
4. Quality Education
5. Gender Equality
6. Clean Water and Sanitation
7. Affordable and Clean Energy
8. Decent Work and Economic Growth
9. Industry, Innovation and Infrastructure
10. Reduced Inequality
11. Sustainable Cities and Communities
12. Responsible Consumption and Production
13. Climate Action
14. Life Below Water
15. Life On Land
16. Peace, Justice, and Strong Institutions
17. Partnerships for the Goals



The Economic, Social and Ecological /Env. aspects of the Sustainable Development Goals (SDGs)



# What is ESG and its relevance

- The term 'ESG' is commonly used to refer to environmental, social and governance matters / working / operations relevant to a company's / Organization's strategy and operations.
- ESG is also known as
  - Sustainability Score
  - Social Responsibility of Organization
  - Consideration Factors for Investment



# ESG Attributes



## Environmental

- Climate Change
- Pollution
- Energy Efficiency
- Water Life cycle
- Waste Management
- Carbon Neutral
- Net Carbon Zero
- Loss of Biodiversity
- Land usage
- Resource depletion
- Innovation/Services reducing Env. Impact



## Social

- Human Rights
- Diversity
- Philanthropy / CSR
- Product Liability
- Employee Healthcare
- Labor Practice
- Data Security
- Human Capital
- Job Creation
- Working Conditions
- Equal Opportunity
- Grievance Mechanism



## Corporate Governance

- Purpose, Value & Culture
- Board Composition
- Succession Planning
- Executive Pay
- Ethics & Values
- Legal Compliance
- Tax Transparency
- Lobbying
- Corporate Behavior
- Stakeholder Engagement
- Disclosure of Information
- Shareholder Rights



# ESG Relation from India perspective

- In wake of Global warming, many actions have been initiated and lot of action globally is in progress.
- In 2015, these initiatives were interlinked with social, environmental, corporate responsibility and many other aspects in form of UN SDG.
- As part of global community, India also made commitments in form of different steps from Govt. level.
- Few are actions at policy / action level are as:
  - Boost towards Green energy (Renewable energy / RPO)
  - Energy efficiency (Energy Audits/BEE ratings / LED lamps)
  - Water management(conservation, usage optimization, utilization)
  - Pollution / Emission control(New norms)
- Globally, various funding institutes / organizations / corporates had linked UN SDGs with ESG factors and compliance to ESG parameters / factors were being asked / clamored for major projects funding.



# Requirement / Criticality of ESG for Organization

- ESG had started chain reaction at all levels – Country, Corporates, NGOs, Society, forcing people adapt this concept and making it part of their working / practices.
- They had snowballed and ESG compliance is now being asked for reputed & well known Project developers and Project finance agencies & other stack holders.
- International studies have suggested selecting companies with better ESG related policies and practices at the time of investment is correlated with a lower credit risk.
- Today, it is estimated that **\$5 trillion to \$7 trillion** is needed each year to achieve Sustainable Development Goals (SDGs) which requires financial institutions to include ESG factors in their investment decisions.
- In a nutshell, it is imperative that in wake of recent past developments, majority of funding agencies / institutes / organizations in domestic / global markets including other stack holders, expect Project developers to disclose their ESG activities.



# ESG Information – Reason for Reporting

- The aim is to define one or more clear objectives for ESG information so that management can evaluate whether the information achieves its intended objectives. Also the ESG reporting will have direct influence on its quality, quantity and characteristics.
- Major reasons for ESG reporting by any Organization can be:
  1. As response to compliance requirement
  2. For communicating important information to Stack holders
  3. To align with peer practices
  4. Contribution to policy goals
  5. Participating in ranking, ratings and Indices
  6. Communicating operational and resource efficiency, targets and plans in response to ESG-related risks and opportunities to Stack holders.

**In general, the reporting objectives best suited to Stake holders' needs are those that focus on the way in which company integrate ESG factors into their strategies and manage ESG risks and opportunities to support resilience, growth and long-term value creation.**



# ESG Information – Reason for Reporting

Table below provides some typical examples of the reasons to report ESG information.

<b>Explore the Reasons / Possibilities</b>	<b>Gathered Facts / Knowledge / Information</b>
Satisfy compliance requirements	Which requirements apply to the company? Is judgment required to respond to “non-prescriptive” requirements?
Communicate progress against company commitments and strategic aims	What commitments or strategic objectives has the company made and communicated? What are the expectations and priorities of connected stakeholders who can help or hinder progress towards strategic aims?
Describe how the company creates value	How does the business model take inputs from the various types of capital and transform them through business activities and interactions to produce outputs and outcomes that create value?
Describe drivers of long- term value	How does the company manage value drivers across a range of capitals in order to support long term value and in turn long term performance, prospects and position?
Report contribution to international commitments such as the Sustainable Development Goals (SDGs), Paris Agreement, Aichi Biodiversity Targets, CoPs	Which SDGs are important to the business? Where does the company have the biggest impact? Where are the opportunities?
Align with peer practice	What information are other companies publicly reporting? Those in similar sectors/industries? Geographies?
Participate in ratings and indices	Are key stakeholders using ratings and indices? Is participation of strategic or reputational importance?
Respond to stakeholders, NGOs and societal expectations	Have NGOs and stakeholders received specific requests or has the company committed to responding to stakeholder feedback?



# ESG Report – Audience (Stake Holders)



## Factors for Audience / Stake holders

1. Responsibility - Legal, Financial, Operational, Regulation, Policy, Contracts etc.
2. Influence - License to operate, Ability of company, Meeting the goals.
3. Proximity - Interaction, Internal stakeholders, Supply chain partners, Daily operations
4. Dependency - Employees & their families, Clients, Investors
5. Representation - Regulators, Society, Unions, Competitors



# ESG Report – Reporting channels

- There are many different channels and routes for ESG information reporting as Annual Report, Mainstream Report, Integrated Report, Sustainability Report, Online response system, Questionnaire etc.
- Stakeholders use many different sources of information when assessing the implications of ESG factors on a company's condition, performance and prospects. However, in general, people rely on sources of information that reflect both financial and non-financial information, such as mainstream or integrated reports and market day presentations, containing the required information.

## Routes / Channels

Topic specific Reports

Data portals

Fact sheets

Management Presentations

Investor/Analyst presentations

Social media

Media Releases

Website articles/blogs

Web content

Speeches

Videos



# ESG Report – Information category & types

Commonly reported ESG information categories are:

- **Risks** – Internal, External
- **Opportunities** – Internal, External, Challenges, New products & services
- **Management activities** – Actions, Schemes, Projects, resources, Targets
- **Governance** – Organization oversight, policies & actions
- **Strategy** – Identifying objectives, risks & opportunities
- **Targets** – Objectives, results with timeline, key performance indicators
- **Performance** – Sustainability outcome, alignment with business strategy

ESG information types are:

- **Operational info** – Measurement, observations, estimates of resources / output / release etc., Details of processes & procedures
- **Analytical info** – procedural, strategic, business & financial implication of ESG results & plans
- **Forward looking info** – Insight of future activities & its impact on business



# ESG Report – Indicators

Organizations select and use indicators for various purposes which can be:

- **Provide evidence** – direct / indirect evidences e.g. HR policy, Recruitment policy, Training directives, Management responsibility for Sustainability
- **Explanation** – descriptive & analytical indicators, intention of plans, strategy, performance, comparative analysis, risk mitigation measures,
- **Provide measures** of absolute / integrated performance
- **Outlining a value** – for communicating magnitude of ESG activities either in qualitative / quantitative terms to Stake holders.



# Stakeholders' interest for Information

- Stakeholders need more forward-looking information and they are interested in long-term value.
- Their interests are mainly focused in:
  1. Risks that affect the company's viability
  2. How ESG issues have affected decisions about future capital expenditure or changed forecasts about future returns
  3. What value the company is generating and how
  4. Changing capabilities and competencies
  5. Whether investments are supporting current returns and future prospects
  6. Strategic and financial decision-making within the company
  7. How companies are adapting to the low-carbon transition and sustainable development;
  8. Whether and how companies are considering different scenarios, assumptions and parameters for planning purposes and management of uncertainties.
  9. Investors highlighted the importance of the emphasis the Task Force on Climate-related Financial Disclosures (TCFD) has put on forward-looking disclosures related to potential future financial impacts of climate change.

## **Note:**

However, it is observed that current ESG disclosures tend to be backward looking or focused on current issues and performance.



# ESG Report – Preparation & Presentation

- When considering how to prepare and present ESG information, referring to reporting principles is an important part of the judgment process. The reporting principles are designed to elicit information that is coherent, robust, decision-useful and aligned with the objectives, audience for and content of corporate reports.
- The given table summarizes reporting principles and qualitative characteristics outlined by key frameworks and standards accepted Globally.

TCFD	GRI	SASB	IIRC	IFRS
Clear, balanced and understandable	Balance	Neutral		Faithful representation
	Clarity	Fair representation		Understandability
Consistent	Comparability	Comparable	Consistency and comparability	Comparability
Comparable		Aligned		
Relevant	Materiality	Useful	Materiality	Relevance & materiality
Timely		Applicable	Conciseness	
Specific and complete	Completeness	Complete	Completeness	Timeliness
Reliable, verifiable and objective	Reliability	Verifiable	Reliability	Verifiability
	Accuracy	Distributive		
	Stakeholder inclusiveness		Stakeholder relationships	
	Sustainability context		Strategic focus and future orientation	
			Connectivity of information	
<b>Details of Abbreviation</b>				
TCFD Task Force on Climate-related Financial Disclosures				
GRI Global Reporting Initiative				
SASB Sustainability Accounting Standards Board				
IIRC International Integrated Reporting Council				
IFRS International Financial Reporting Standards				



# **ESG – Evaluation Process Steps**

## **A. Evaluate**

- Support for the objectives and purpose of reporting
- Evidence of business value
- Evidence of value to the intended audience for information
- Whether information is supportable and useful
- Whether information can be clearly communicated

## **B. Decide**

- Understand assumptions and limitations
- Seek internal and external expert advice

## **C. Document**

- Sources used and relied upon
- Discussions held and with whom
- The approval process and decision-makers
- Information evaluated, prepared or provided under conditions of uncertainty
- Challenges and barriers through the judgment process
- Boundaries and scope of assessments and information
- Internal controls, checks and balances
- Key factors that could change and lead to reassessment
- Qualifications linked to known and unknown risks and uncertainties



# ESG – Value Drivers



# ESG – Value Drivers



# Framework integrating ESG Points



