CSR AND ESG

Pradeep Ramakrishnan
General Manager
Department of Debt and Hybrid Securities
Securities and Exchange Board of India, Mumbai
pradeepr@sebi.gov.in

Abstract

Many a time ESG and CSR are used in the same breath, sometimes contextually and at times wrongly. This article explores certain finer details, including throwing light on the differences as well as the relationship between the two.

Introduction

With every day happenings in the world of ESG, there is also a need to clarify other concepts sometimes associated, mistakenly or otherwise, with ESG. One such thing is the concept of Corporate Social Responsibility (CSR). ESG is a holistic concept of integrating elements of Environment, Society and Governance into the business. Corporate Social Responsibility is a concept whereby businesses, voluntarily or otherwise contribute to a better society and environment.

At times, CSR is used in relation to ESG. It is important to appreciate the similarities and differences between the two.

The concept of ESG

In April 2006, the United Nations Principles for Responsible Investment (UNPRI) was launched. The UNPRI[1]promotes the absorption of environmental, social, and corporate governance factors (ESG) into investment decision-making. The concept of ESG was first coined by the UN PRI to make businesses commit themselves to incorporate ESG issues into investment analysis and decision-making processes. The UNPRI believes that an economically efficient, sustainable global financial system is a necessity for long-term value creation. According to the UNPRI, responsible investment as a strategy and practice to incorporate environmental, social and governance (ESG) factors in investment decisions and active ownership.

The following graph from the UNPRI delineates some facts that can be factored into investment and ownership decisions:

Environmental	Social	Governance
▪ Climate change	▪ Human rights	▪ Bribery and corruption
▪ Resource depletion	▪ Modern slavery	▪ Executive pay
▪ Waste	▪ Child labour	▪ Board diversity and structure
▪ Pollution	▪ Working conditions	▪ Political lobbying and donations
▪ Deforestation	▪ Employee relations	▪ Tax strategy

***Image source**: UNPRI*

Both the Companies Act and the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (SEBI Listing Regulations) recognize the significance of ESG.

A director of a company shall act in good faith in order to promote the objects of the company for the benefit

[1] *https://www.unpri.org/download?ac=10948*

of its members as a whole, and in the best interests of the company, its employees, the shareholders, the community and for the protection of environment.

- Section 166 (2) of the Companies Act, 2013

Members of the board of directors shall act on a fully informed basis, in good faith, with due diligence and care, and in the best interest of the listed entity and the shareholders.

- Regulation 4(2)(f)(iii)(3) of the SEBI Listing Regulations

SEBI has integrated ESG into many compliance requirements by listed entities and intermediaries by specifying regulations / stipulations pertaining to

- ***BUSINESS RESPONSIBILITY AND SUSTAINABILITY REPORTING (BRSR)***
- ***BRSR CORE reporting***
- ***ESG INVESTING – PRINCIPLES***
- ***GREEN BONDS framework including Blue bonds, transition bnds and yellor bonds***
- ***GREENWASHING***
- ***ESG RATINGS***

The Concept of CSR:

Corporate Social Responsibility (CSR) implies a concept, whereby companies decide voluntarily or otherwise to contribute to a better society and a cleaner environment for the betterment of their stakeholders and society in general.

India is perhaps the only country in the world to have mandatory CSR[2]. Section 135 of the Companies Act, 2013 ("Act") provides that certain companies must mandatorily contribute a certain amount towards CSR activities. As per the Companies Act, *'Corporate Social Responsibility'* means and includes but is not limited to:

- *Projects or programs relating to activities specified in Schedule VII to The Act.*
- *Projects or programs relating to those activities which are undertaken by the Board of Directors of a company in ensuring the recommendation of the CSR Committee of the Board as per declared CSR Policy along with the conditions that such policy will cover subjects specified in Schedule VII of the Act.*

Schedule VII to the Companies Act contains a list of activities that qualify as CSR activities and have been formulated on the lines of the UN's Sustainability Development Goals. Some of these are:

- *Eradicating hunger and poverty*
- *Sanitation*
- *Promoting education*
- *Slum area development*
- *Promoting gender equality*
- *Environmental sustainability*
- *Protection of national heritage, art and culture*
- *Promotion of rural sports*
- *Contribution to incubators / research*

[2] *http://www.csr.gov.in/*

CSR Applicability in India – regulatory requirement

The provisions of CSR apply to every company fulfilling any of the following conditions in the preceding financial year:

- Net worth of more than Rs.500 crore
- Turnover of more than Rs.1000 crore
- Net profit of more than Rs.5 crore

The Board of Directors of every company for which the CSR provisions apply must ensure that the company spends in every financial year at least 2% of its average net profits made during the immediately preceding three financial years as per its CSR policy. If the company has not completed three financial years since its incorporation, it must spend 2% of its average net profits made during the immediately preceding financial years as per its CSR policy.

As per the March 2022-23 financial year figures, environmental projects are the priority for CSR fund allocations for almost 23% of India's corporate houses in India. Healthcare was another sector in which CSR funding is being made by companies in India.[3]

SEBI – CSR related disclosures as part of the BRSR:

SEBI has stipulated for the top 100 companies by market capitalization, disclosures through the BRSR. To enable companies to demonstrate the action taken for the welfare of the society, the BRSR also seeks granular disclosures on CSR projects, as follows:

Essential indicators

i. *Social Impact Assessments (SIA) of projects.*

ii. *Information on projects where Rehabilitation and Resettlement is being undertaken including districts, no. of project affected families and amount paid to them.*

Leadership indicators

i. *Corporate Social Responsibility (CSR) projects undertaken in districts designated as 'aspirational districts' along-with amount spent thereof.*

ii. *Beneficiaries of CSR projects including number*

[3] *https://csrbox.org/India_CSR_report_2023-India-CSR-Outlook-Report---10-Years-of-CSR-Compliance-in-India-and-Envisioning-the-Next-10-Years_115*

and percentage belonging to vulnerable and marginalized groups.

iii. Benefits derived and shared from the intellectual properties owned or acquired, on the basis of traditional knowledge.

ESG vs CSR – a comparison:

Inevitable is comparison between ESG and CSR - on what are the differences between ESG and CSR– these differences are generally sought by stakeholders. ESG is a much holistic concept than CSR. The following are broad differences between the two:

CSR	ESG
CSR is the contribution of a company, to the uplifting of the society / betterment of the environment	ESG consists of the criteria used to measure acompany's overall sustainability.
CSR is largely voluntary (mandatory in India)	ESG is a concept that leads to sustainability and over a period of time, it is the only way in which business can flourish.
CSR is not a parameter of investor demand	ESG in operations is increasingly demanded by investors and other stakeholders.
CSR is generally outside the operations / business	ESG not a standalone concept, but is part of the operations of the company Businesses, as part of ESG, integrate social and environmental concerns into their business strategy
CSR can contribute to ESG	ESG is a super set to CSR
The objective of CSR is to positively impact society while improving brand reputation	The larger objective of ESG is sustainability of operations
CSR is part of a consciousness that businesses should give back to the society	ESG is part of a broader obligation of a business to be accountable to not just investors but all stakeholders in all its operations and activities.
Measurement of CSR is very broad and largely is measured in qualitative terms	ESG also has broad metrics but has both qualitative and quantitative metrics. In many countries it is measured in quantitative terms. Many bodies like ESG Rating providers assign ratings on the basis of such measurement
CSR is broad – philanthropy, donations to non-profits, adoption of villages etc	ESG is typically focused on areas like environmental conservation, labour practices, diversity, corporate governance and sustainability.

CSR is termed as *"Triple-Bottom-Line-Approach"*[4], - people, planet, and prosperity - which is meant to help the company promote its commercial interests along with the responsibilities it holds towards the society at large. ESG is a sustainability assessment using Environmental, Social, and Governance metrics to evaluate how sustainable and resilient a company is to make it accountable for its sustainability claims.

CSR and ESG:

With the Companies Act and SEBI Listing Regulations recognizing both ESG and CSR parameters through obligations and principles, there is increasing stakeholder (including investor) interest in ESG. While it does assist in laying down bare a company's risks and opportunities, the increasing ESG legislation across the world means that it is be ESG will sine qua non be a part of the business environment in which corporate houses operate. Over a period of time, since ESG is being legislated, it has also become an appendage to business decisions by stakeholders.

The advantage of CSR is that it helps the altruism of the company's existence. It boosts the image of the company and augments the reputation. It also leaves a positive imprint on the society.

Conclusion:

CSR is thus a largely voluntary strategy employed by businesses to have a positive impact on society. It is mandatory in India, though. ESG, on the other hand, is a much larger and more holistic concept which integrates environmental, social and governance parameters into business and discloses the same through qualitative and quantitative parameters. It is a tool to ensure that businesses are sustainable in the long run and companies attractive destinations to invest and to also built trust in stakeholders, including customers and investors. ESG is increasingly being legislated by countries around the world to ensure businesses contribute to a sustainable planet. MA

[4] *https://online.hbs.edu/blog/post/what-is-the-triple-bottom-line*