# ESG in a post-COVID India – Bringing the "S" back to the centre

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A term that everyone in the financial world is talking about (more so post COVID) is ESG. This is investor-speak for "Sustainability", a term that has been around for several decades since John Elkington propounded the notion of the Triple Bottom-line. It is indeed good news that the financial world has embraced the idea but it is a term whose meaning, and its impacts, is often similar to which blind man is touching what part of the proverbial elephant.

All discussions on ESG seem to have a similar pattern. The three components tend to be seen separately in silos and their complex interrelations often overlooked. Also, within a few minutes, ESG discussions converge into one topic – Climate Change Mitigation i.e. reducing greenhouse gases (GHGs) emissions through renewables, EVs and net-zero. There is a fleeting discussion on the "S", which usually stops at diversity and in India, rarely goes beyond gender. That, sadly, seems to be the end-all of ESG!

But there is far more to it than that, especially in emerging economies like India. As companies outsource their activities, their dependence on supply chains increases and that is where they become extremely vulnerable to the "S" issues. COVID uncovered the plight of informal workers – many of whom are migrant – who comprise the base of the economic and (not coincidentally) social pyramid mired by exclusions on account of gender, caste, identity, disability etc. They all contribute to India's wealth by working in MSMEs (who are an integral part of supply chains of large companies), in construction (at the sites but also in the production of red bricks, stones, sand, aggregates) and as contract and casual labour. What characterises their terms of employment is simply the lack of terms of employment – human rights violations are the norm be it in wages, working and living conditions, safety and little investments are made in training. This is the weak underbelly of many companies in India who have little visibility on human rights issues beyond their tier 1 suppliers. For a company therefore, persuading and supporting suppliers to invest in their workforce will not only reduce risks of supply disruptions but could potentially improve quality and reduce costs

Another component of "S" that is critical is communities around production sites. Here are people who, most likely involuntarily, gave up their lands on which a factory has been built and, apart from some inadequate compensation they received at that time, get very little benefit subsequently (2% of profits at best as per the mandated CSR) but bear huge costs – of pollution, water use and disruptions associated with industrial activity. COVID has driven people back to their villages and with employment opportunities limited, communities are increasingly expecting more from companies that have plants in their midst. And since it is now communities that provide the "license to operate",, it is important that companies respond proactively and positively to community needs and aspirations ensure business continuity.

A third "S" is safety. While most established companies invest in safety training, processes and equipment, much of this is restricted to their own workforce. What is less clear is the extent to which these investments cover contract and casual labour working in their plants. And whether they track such investments made by suppliers as accidents and casualties in supply chains can disrupt their operations too is unclear. Thus, it is in the interests of companies that they continuously expand the scope of safe operations.

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Looking at "E" issues without its impact on the "S" is another aspect that is often ignored. The linkage between air and water pollution and human health and survival is better understood. However, the linkage between climate change mitigation concerns and its impact on people is less so – this is the Just Transition agenda. So, while coal-fired power plants need to be replaced with renewables, it must be understood that in the emerging economies, this requires a period of transition as abrupt stopping of coal mining puts millions of people out of work and adversely impacts public finances which is used to fund public good. The transition to EVs, which have much fewer parts and they are very different from the current petrol/diesel/CNG vehicles, impacts people employed across the sector, particularly the supply chains and the whole maintenance & repair infrastructure will need to change. This will significantly affect the lives and livelihoods of people working in these value chains and it is in the company's interest to enable this transition to be "just", which will be a significant "S" issue.

What is the take-away from all this? It is not that GHG emissions and gender diversity are not important – they certainly are! But so are a host of other issues such as resource scarcity, pollution, biodiversity loss, inequality, human rights, provision of decent work and so on. It is therefore critical for the financial world to understand and identify all the E, S and G issues that are material to a company and its stakeholders, recognise their interrelations and to nudge and persuade their investees and borrowers to address them holistically.

A post-COVID India will demand that companies especially focus on the "S". The time has come to bring the "S" back to where it belongs – centre stage!