

Need for ESG Compliance in Agri MSMEs in India

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Abstract:

Climate change has become one of the threatening phenomena all over the world, including India. Climate change has many repercussions, including higher atmospheric temperatures, the melting of ice, a rise in sea level, and bad effects on economic growth. Agriculture is responsible for 24 percent of the Global Green Gas emissions. Agri MSMEs and agribusiness centres are also emit Green Houses. Agri MSMEs are the important sectors of the economy providing employment and contributing higher share in the GDP all the World. Agri MSMEs are one of the major employment intensive segments having a share of 12.38 per cent in the employment generated in all Registered Factory sector in 2017-18 in India. Estimates done by the World Bank, The Food and Agriculture Organization and other organizations show that about 24 percent of the green gas emissions are from the food and agriculture sector. MSMEs generate around 110 million tonnes of carbon dioxide, equivalent to the energy usage of up to 50 million metric tonnes of oil per year from 200 energy-intensive manufacturing clusters in India. In the period of globalization and post globalization period, businesses are driven by a value-led principles, abiding principles of environment, social, and governance (ESG) into their main business activities to fulfill business goals and objectives and to accomplish the expectations of the stakeholder. Environment, Social and Profitability are the fundamental pillars for the success of any units including agri business units. Units should be economically viable, environment friendly and beneficial to the society. Agro MSMEs should come forward to implement ESG guidelines in India to protect the interests of the stakeholders.

Climate change has become one of the threatening phenomena all over the world, including India. Climate change has many repercussions, including higher atmospheric temperatures, the melting of ice, a rise in sea level, and bad effects on economic growth. According to the UN Climate Action Division, China, the United States of America, India, the European Union, and the Russian Federation are the five countries that produced about 60 percent of greenhouse gas emissions in 2021. The Group of 20 (Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, the Republic of Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey, the United Kingdom, the United States, and the European Union) are responsible for about 76 percent of global greenhouse gas emissions. Power generation, manufacturing of goods, cutting down of forests, transportation, food production, increasing number of buildings, and massive consumption are the main reasons for greenhouse gas generation, which causes climate change.

Agriculture is responsible for 24 percent of the Global Green Gas emissions. Agri MSMEs and agribusiness centres are also emit Green Houses. According to the World Bank, agriculture is the source

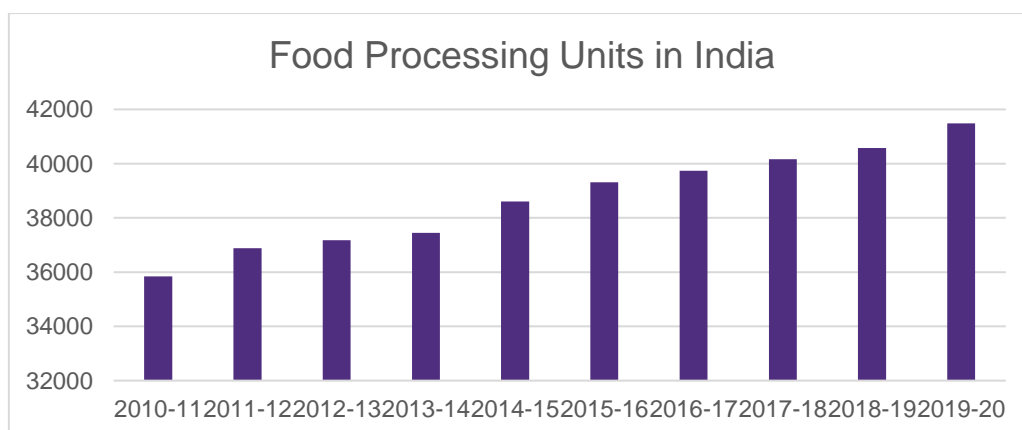
of about 80 percent of global deforestation, 24 percent of global annual greenhouse gas (GHG) emissions and rising food production is expected to require 40-50% more water in the coming years. Global food demand is estimated to increase to feed a projected global population of 9.7 billion people by 2050. Household food consumption, for its part, is the largest emissions category within pre- and post-production processes. It makes up 7.3 percent of all agri food emissions, including 8.2 percent of MIC emissions and 7.8 percent of HIC emissions but only a fraction of a percent of LIC emissions.

Agri MSMEs are the important sectors of the economy providing employment and contributing higher share in the GDP all the World. Agri MSMEs are one of the major employment intensive segments having a share of 12.38 per cent in the employment generated in all Registered Factory sector in 2017-18 in India. As per NSSO 2015 report, the unorganized FP sector in the country comprises nearly 25 lakh food processing enterprises which are unregistered and informal. According to the latest Annual Survey of Industries (ASI) for 2017-18, the total number of persons engaged in the registered food processing sector was 19.33 lakh. The unregistered food processing sector supports employment of 51.11 lakh workers as per the NSSO 73rd Round, 2015-16. As per the study conducted on Level of Food Processing in India (Deloitte study 2020-21), processing level in India is at 4.5 per cent for fruits, 2.70 percent for vegetables, 21.1 per cent for milk, 34.2 percent for meat and 15.4 percent for fishery. As per the Intergovernmental Panel on Climate Change (IPCC) agri business is responsible for 24 % of the anthropogenic green house.

Table no.1: Number of Units and Persons engaged in registered Food Processing Industry sector

Year	FPI	Persons in lakhs
2010-11	35838	16.61
2011-12	36881	17.76
2012-13	37175	26.99
2013-14	37449	17.41
2014-15	38607	17.73
2015-16	39318	17.65
2016-17	39740	18.53
2017-18	40160	19.33
2018-19	40579	20.05
2019-20	41481	20.32

Source: Annual Report 2022-23, Ministry of Food Processing Industry, Government of India, New Delhi



Environmental , Social and Profitability problems in the agro MSMEs in India

Estimates done by the World Bank, The Food and Agriculture Organization and other organizations show that about 24 percent of the green gas emissions are from the food and agriculture sector. MSMEs generate around 110 million tonnes of carbon dioxide, equivalent to the energy usage of up to 50 million metric tonnes of oil per year from 200 energy-intensive manufacturing clusters in India, according to a 2018 report. Agro MEMEs, food processing centres, logistics, agricultural implements and equipment, packaging methods, supply chain, farming activities, fertilizers, livestock care practices, burning of agricultural waste and strays, Livestock manure, use of fossil fuel in transportation, irrigation, high water use, soil erosion, loss of biodiversity, food processing are the important activities in the agriculture responsible for higher level green gas emissions.

As per the World Health Organisation (WHO) 600 million people, on an average, 1 in 10 people are affected by food pollution every year. Children aged below 5 are the most victims of food pollution. The world population is expected to cross 9.7 billion (970 crores) by 2050. We have to find food for these 970 crores of people in the near future. Quality food and food safety are the top concerns of government, consumers and food processors. But there are several factors that can impact food safety, such as foodborne pathogens, chemical contamination, and physical hazards. Food processors need to invest in food safety measures and technologies to ensure the safety of their products. To provide adequate nutritious, safe and affordable food is a major concern of policymakers. The food processing industry in India is highly informal, with more than 75% of the sector consisting of small-scale and unorganised units. This makes it difficult to implement and enforce food safety standards and regulations.

Profitability is the most important factor for sustainability of any institution, including agro MSMEs. Unfortunately, a larger number of agro MSMEs are facing shortages of profitability and are forced to close down their units within a few years of registration. Statistics show on an average more than 10000 MSMEs are closing their operations due to insufficient profit in a year. As per the answer to the question No. 154 dated 20.7.2023 in Parliament, the number of MSMEs which were closed/shutdown during 01.07.2021 to 31.03.2023 was 19,248 and the number of persons employed in those MSMEs was 1,32,205.

Climate change badly affects the demand and supply forces of agro MSMEs. Through the destruction of crops and reduction in industrial production, money in the hands of people, especially by farmers and by labourers, will reduce the purchasing capacity of the people affected. The reduction in purchasing capacity automatically reduces the demand forces in the economy. On the supply side, farm production and industrial production will reduce and this will lead to inflation in the economy. Inflation will force the monetary authorities to increase the interest rate, which will affect the investment atmosphere in the economy.

Agro MSME units and the food processing industry are facing qualified and experience shortages of workforce. The food processing sector has also provided employment opportunities for a significant number of women workers, with 2.27 lakh women workers employed in the registered sector in 2019-20. Inadequate training facilities, an aging workforce, and low wages, are commonly called reasons for the labour shortage.

Food wastage is one of the major issues facing the food processing industry. India is able to process less than 10 percent of the total fruits and vegetables produced. Since agricultural products are perishable in nature, wastage is more than 30 percent. According to a recent study conducted in India, the wastage of cereals ranges from approximately 3.89% to 5.92%, while wastage of fruits and vegetables varies from

around 4.87% to 15.05%. Furthermore, there have been notable losses within the milk, meat, poultry, and marine fisheries sectors (1%-6%). Lack of storage facilities, poor transportation infrastructure, insufficient linkage between production and processing, seasonality of operations and low capacity utilisation are some of the major bottlenecks to the high rate of food waste in India.

Environment, social and Governance framework in agro MSMEs

In the period of globalization and post globalization period, businesses are driven by a value-led principles, abiding principles of environment, social, and governance (ESG) into their main business activities to fulfill business goals and objectives and to accomplish the expectations of the stakeholder. Environment, Social and Profitability are the fundamental pillars for the success of any units including agri business units. Units should be economically viable, environment friendly and beneficial to the society. According to Arturo Ania, and Katharina Uebele “Improving ESGperformance – the impact of operations on the safety and health of the workforce, the environment and the surrounding communities - can directly lead to improved business performance and profitability in an organisation.” According to the Grant Thornton report “Food sustainability: Food sustainability is another important challenge for the food processing industry. The industry needs to find ways to produce food in a sustainable manner that reduces its environmental impact. This includes reducing food waste, using renewable energy sources, and sourcing sustainable ingredients”. “ESG is a lifeline for any organisation, not just for manufacturing organisations. It is no more just about ticking a box about compliance or counting carbon footprint” - CII Kerala Chairman The time has come for environmental social governance (ESG) to be demystified and be made an integral part of business organisations cutting across sectors.

1. Environmental (E): This pertains to the ecological impact and sustainability practices integrated into supply chain operations. It involves reducing carbon footprints, conserving resources, minimizing waste generation, adopting renewable energy sources, and promoting environmentally friendly practices throughout the supply chain.
2. Social (S): Social aspects encompass the treatment of people within the supply chain, including employees, communities, and stakeholders. It involves fair labour practices, human rights considerations, health and safety standards, diversity and inclusion initiatives, community engagement, and support for local communities in which the supply chain operates.
3. Governance (G): Governance focuses on the ethical and transparent management and oversight of the supply chain. This includes ethical business practices, compliance with regulations and standards, risk management, transparency in decision-making processes, and accountability at all levels of the supply chain.

ESG principles

There are nine principles of ESG as per the Government of India ERSR guidelines and they are;

1. Businesses should conduct and govern themselves with Ethics, Transparency and Accountability
2. Business should provide goods and services that are safe and contribute to sustainability throughout their life cycle
3. Businesses should respect and promote the well-being of all employees
4. Businesses should respect the interests of, and be responsive towards all its stakeholders, especially those who are disadvantaged, vulnerable and marginalized
5. Businesses should respect and promote human rights

6. Businesses should respect, protect, and make efforts to protect and restore the environment
7. Businesses, when engaged in influencing public and regulatory policy, should do so in a responsible manner
8. Businesses should support inclusive growth and equitable development
9. Businesses should engage with and provide value to their customers and consumers in a responsible manner.

Implementation of ESG framework in India

Government of India introduced ESG in selected companies because of the The UN Guiding Principles for Business and Human Rights (UNGPs), UN Sustainable Development Goals (SDGs), Paris Agreement on Climate Change (2015), Core Conventions 138 and 182 on Child Labour by the International Labour Organization (ILO), Annual Business Responsibility Reports (ABRRs) and Companies' Act 2013. Notified in the Gazette of India on 30 August 2013, Section 135 of the Companies Act 2013 requires companies to undertake Corporate Social Responsibility (CSR). The Ministry of Corporate Affairs (MCA), Government of India, released a set of guidelines in 2011 called the National Voluntary Guidelines on the Social, Environmental and Economic Responsibilities of Business (NVGs). In order to align the NVGs with the Sustainable Development Goals (SDGs) and the 'Respect' pillar of the United Nations Guiding Principles (UNGP) the process of revision of NVGs was started in 2015. After, revision and updation, the new principles are called the National Guidelines on Responsible Business Conduct (NGRBC). The new BRSR, in effect since 2023, is more closely aligned with globally accepted reporting frameworks like the GRI and TCFD. It requires the top 1,000 listed companies in India to respond to 140 questions, divided into 98 essential indicators (mandatory) and 42 leadership indicators (voluntary). The disclosure requirements are grouped into nine core categories, based on the principles of the National Guidelines for Responsible Business Conduct introduced by SEBI:

- A. **Environmental protection:** Key performance indicators cover electricity consumption, water usage and air emissions.
- B. **Human rights:** Focus on human rights violations and minimum and fair wages.
- C. **Integrity:** Performance indicators include anti-corruption, anti-bribery and conflicts of interest policies.
- D. **Employee well-being:** Metrics focused on parental benefits, employee accessibility and the percentage of unionized workers.
- E. **Inclusive growth:** Policies favoring vulnerable and marginalized groups.
- F. **Sustainable goods and services:** Information on investments in social and environmental impacts.
- G. **Responsible consumer engagement:** KPIs encompass handling consumer complaints and feedback, product recall procedures and cybersecurity and data privacy policies.
- H. **Stakeholder responsiveness:** Describing engagement with vulnerable and marginalized groups.

Problems in the ESG implementation in Agri MSMEs

Agro MSMEs should come forward to implement ESG voluntarily for the sake of sustainability and for the interests of farmers, consumers, investors and policymakers. But the adherence of the ESG principles and frameworks is far from satisfactory. There is inadequate awareness among agri entrepreneurs regarding ESG compliance. Investors in India and abroad should give proper awareness regarding the

need and importance of environmental, social and governance awareness in agriculture, especially the agri-food sector.

large number of supply chains is one of the important problems in the implementation of ESG in agro MSMEs. Supply chain management refers to the oversight and coordination of all the processes involved in the production and distribution of goods or services. It involves the entire journey of a product, from the raw materials stage to the finished product reaching the consumer. Integrating ESG principles into supply chain management involves evaluating the environmental, social, and governance risks and opportunities associated with every stage of the supply chain from sourcing raw materials to manufacturing, distribution, and disposal or recycling. Companies that prioritize ESG in their supply chains aim to mitigate risks, enhance their brand reputation, foster innovation, achieve operational efficiency, and create long-term value for stakeholders while contributing positively to society and the environment.

Recommendations for increasing ESG compliance in agro MSMEs.

1. More ESG awareness in agro MSME units for the implementation of ESG voluntary Government of India guidelines.
2. Financial assistance from Government to the agro MSMEs for the ESG implementation.
3. Enhance infrastructure facilities for the agro MSMEs.
4. Encourage MSMEs to adopt sustainable practices can often achieve cost savings, improve efficiency, and differentiate themselves from competitors making sustainability a competitive advantage.
5. Encourage innovations and technology upgradation in the agro MSMEs
6. Develop new technology for sustainability with the help of premier technology institutes in India.
7. Improve the supply chains to reduce green gas emissions.
8. Adopt fiscal and monetary policy decisions in favour of ESG implementation and for the fulfillment of sustainability goals.
9. Capacity building programmes for agro MSME unit functionaries.
10. Branding of ESG compliance agri products.
11. More encouragement for export to the ESG compliance agri products.
- 12.

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