

CHAPTER 4

ENVIRONMENTAL ASPECT AND SUSTAINABILITY REPORTING

Good Corporate Governance includes socially responsible business practices. A socially responsible approach to business would involve sensitivity to social, environmental and ethical issues by corporate entities. The high levels of public accountability which apply to Public Sector Undertakings (PSUs) as a result of their public ownership make socially responsible reporting by PSUs very important. There are several methods of reporting on the contributions made by the companies in the area of their social and environmental obligations. Major international initiatives in this regard are the United Nations Global Compact and the Global Reporting Initiative (GRI). The office of the Comptroller and Auditor General of India is also seized of the developments taking place nationally and internationally in this regard. A limited survey of such contributions by central PSUs in India was attempted the results of which are reported in the following paragraphs.

4.1 Sustainability Reporting

4.1.1 Corporate Sustainability is a business approach that creates long term shareholder value by embracing opportunities and managing risks derived from economic, environmental and social developments. As a part of good Corporate Governance, companies need to understand and adopt an approach for conducting business that meets the needs of the enterprise and the stakeholders today while protecting, sustaining and enhancing the human and natural capital for the future.

4.1.2 When PSUs manage and report on their sustainability, they are inter-alia internally recognising and externally reporting:

- (i) Whether the business objective of profit maximisation is moderated by non-profit social objectives
- (ii) Whether the generation of profits by the PSUs is accompanied by local or regional negative impacts;
- (iii) Whether PSU operations contribute to enriching the quality of the life and address various societal issues relating to corruption, gender, culture and heritage etc;
- (iv) Whether their operations are impacting positively or negatively on the environment and resources (biodiversity, human and ecological health, global warming, resource endowments etc.)

4.1.3 Though there is no mandatory requirement to adopt Sustainability Reporting in our country, some PSUs have prepared Sustainability Report based on the GRI Framework covering various social issues and indicating steps taken to manage such issues and to promote corporate sustainability. GRI is a large multi-stakeholders' network of experts and its vision is that reporting on economic, environmental and social performance by corporate entities should become as routine and comparable as financial reporting. GRI Reporting Framework provides guidance on how organisations can disclose their sustainability performance.

4.1.4 A survey by Audit revealed that the following central government companies have prepared separate Sustainability Reports or Social Responsibility Reports. The salient features of these Reports were as follows

(i) Hindustan Paper Corporation Limited:

The Company made its first report on Corporate Sustainability for the Financial Year 2005-06. This report has been prepared as per guidelines developed by Global Reporting Initiative. The report details the social and environmental contribution of its two Assam based units, Nagaon Paper Mills and Cachar Paper Mills. On the **Environment** dimension the Company detailed its efforts towards optimising raw material consumption, energy conservation, effective effluent treatment, and farm forestry programme. On the **Social** dimension, the Company detailed its efforts towards social and economic upliftment of the community by boosting literacy, providing safe drinking water, building roads and hospitals, relief efforts, employment of physically challenged persons and providing cultural activities.

(ii) Bharat Petroleum Corporation Limited:

Bharat Petroleum Corporation Limited (BPCL) in its Sustainability Report for the year 2004 detailed out its policy on Health, Safety and Environment (HSE) and action taken on these fronts. A second report was stated to be in preparation and ought to be brought out in early 2007. BPCL has a combined HSE department at the corporate level and a separate Energy and Environment Section at the refinery. In the policy statement, HSE has been stated as integral part of their business. The policy statement says that BPCL would demonstrate its commitment towards HSE, establish clear objectives and targets for improvement of HSE, provide means to achieve their mission and monitor the performance.

On the action front the Company stated that its refinery facilities were certified under ISO 14001 Environment Management by DNV, Netherlands in 2004 for three years. This certification is for well defined objectives for five years for reduction in emissions, water conservation, solid waste disposal, tree plantation etc. With the help of actual data the Company tried to establish its achievement in pollution control. The Company had Corporate Social Responsibility as one of the prime focus areas. Under the special component plan, community welfare work for the urban areas had been undertaken in the field of health, education and infrastructural development.

(iii) Steel Authority of India Limited:

The Company brought out its Corporate Social Responsibility Report as its contribution to the community. It adopted a statement of objectives towards the people, employees, and customers and dealt with its environment and social performance extensively in the Report. On **Environment Performance**, the Company took initiatives on water conservation, Amla plantation, Aushadhi Vatika at Dalli Rajhara Mines, Damyanti Bird Sanctuary at Salem Steel Plant etc. The initiatives taken in **Social Performance** included various health camps, reproduction and child health programme, family planning programme, safe motherhood and child survival & immunisation etc.

4.2 United Nation's Global Compact:

4.2.1 The 'United Nation's Global Compact' is an initiative to encourage businesses worldwide to adopt sustainable and socially responsible policies, and to report on them. Under the Compact, companies are brought together with UN agencies, labour groups and civil society. The Global Compact was first officially launched at UN Headquarters in New York on 26 July 2000. As on September 30, 2006, there were 124 companies and business

associations in India which had pledged commitment to UN's Global Compact. There are 10 principles which the participating companies are required to follow and report through the Communication on Progress (COP) annually which indicates systems in operation and action taken towards each commitment. These principles are as follows:

Human Rights

Businesses should:

- Principle 1: Support and respect the protection of internationally proclaimed human rights; and
- Principle 2: Make sure that they are not complicit in human rights abuses.

Labour Standards

Businesses should uphold:

- Principle 3: the freedom of association and the effective recognition of the right to collective bargaining;
- Principle 4: the elimination of all forms of forced and compulsory labour;
- Principle 5: the effective abolition of child labour; and
- Principle 6: the elimination of discrimination in employment and occupation.

Environment

Businesses should:

- Principle 7: support a precautionary approach to environmental challenges;
- Principle 8: undertake initiatives to promote environmental responsibility; and
- Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

- Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

4.2.2 Out of 21 PSUs who are members of the UN's Global Compact, only 11 PSUs reported that they had submitted COP. Some of the PSUs which have not made formal COP have stated that they were following the principles of UN's Global Compact in their operation.

Table 15

Sl. No.	Name of PSU
1.	Balmer Lawrie and Company Limited
2.	Bongaigon Refinery and Petrochemicals Limited
3.	Bharat Heavy Electricals Limited
4.	Cement Corporation of India Limited
5.	Central Warehousing Corporation
6.	Chennai Petroleum Corporation Limited
7.	Dredging Corporation of India Limited
8.	Engineers India Limited
9.	Hindustan Paper Corporation Limited

10.	Indian Oil Corporation Limited
11.	Konkan Railway Corporation Limited
12.	Mishra Dhatu Nigam Limited
13.	NTPC Limited
14.	North Eastern Electric Power Company Limited
15.	National Mineral Development Corporation Limited
16.	Oil and Natural Gas Corporation Ltd.
17.	Oil India Limited
18.	Power Finance Corporation Limited
19.	Rashtriya Chemical and Fertilizers Limited
20.	Rashtriya Nigam Limited
21.	STC Limited

4.3 Non compliance with Labour & Environment Laws and Regulations:

A major component of socially responsible behaviour is compliance with Labour and Environment Laws and Regulations. As State owned enterprises, PSUs are expected to show leadership in this area and serve as models for enterprises in the private corporate sector. A survey covering three years ending 31st March 2006 was undertaken by Audit which revealed the following:

4.3.1 Non compliance with Labour Laws and Regulations:

In the following cases non compliance with Labour laws were observed:

(i) *Indian Medicine Pharmaceutical Corporation Limited:*

An amount of Rs. 3.24 lakh was deposited for non compliance with provision of EPF Act in 2003-04. However, a review petition was pending.

(ii) *Indian Road Construction Corporation Limited:*

An amount of Rs. 5.23 lakh was imposed as damages/interest due to non compliance with provisions of EPF Act since 2001 when the Company went under liquidation.

(iii) *Bengal Chemicals & Pharmaceuticals Limited:*

A demand of Rs. 11.80 lakh for interest/penalty was raised for non-payment of PF dues in the last three years due to shortage of funds. However, efforts were being made by the Company to get the penalty/interest waived.

4.3.2 Non compliance with Environment Laws and Regulations:

In the following case non compliance with environment laws and regulations were observed:

Fertilizers and Chemicals Travancore Limited (Udyogamandal Division):

Supreme Court Monitoring Committee on hazardous waste directed the Company to provide piped water supply to the affected communities by 31.12.2005 as it discharged the effluents to Thodu and directed the Company to pay an amount of Rs.35 lakh as maintenance charges for the supply scheme which was paid in May 2006.

4.4 Conclusion:

Corporate Sustainability Reporting which embraces corporate Social Responsibility is gradually finding acceptance in the case of a few major PSUs. Some PSUs are reporting on these aspects in their Annual Report prepared in compliance with Section 619A of the Companies Act. There is a need to promote a drive in PSUs towards greater Corporate Accountability on social, environmental and ethical issues that have an impact on the society and the environment. Moreover, there is a need for developing consensus on a standard reporting format and a system for providing assurance on such reports by an independent agency. The Institute of Chartered Accountants of India (ICAI) has already taken up the task for preparation of a Guidance Note on assurance aspects of Sustainability Reporting.

New Delhi
Dated:

(C. V. AVADHANI)
Deputy Comptroller and Auditor General
Cum Chairman, Audit Board

Countersigned

New Delhi
Dated:

(VIJAYENDRA N. KAUL)
Comptroller and Auditor General of India