Annexure - V
ESG Rating Guidance Tool

One of the main objectives of the ESG Framework is to enable the Fund Managers to rate the ESG status of an investee company at the time of investment and through the investment lifecycle. This will help the fund manager assess the impact of DFIDI investment on the ESG performance of the investee companies. This ESG framework introduces a five-point rating scale for this purpose.

This rating system can be used in the following ways:

- to assess and rate a company at the time of investment;
- to track changes in the ESG performance and to help assess value additions through the investment period; and
- to rate a portfolio of companies or compare performance of such portfolios across sectors or investment types.

The table below depicts the ESG rating framework.

Parameters	1	2	3	4	5
Environment	☐	☐	☐	☐	☐
Social Development	☐	☐	☐	☐	☐
Governance	☐	☐	☐	☐	☐

Note: 1= just satisfactory; 2= satisfactory; 3= good; 4 = very good; 5= Excellent.

This is a broad guidance tool for the fund manager and each of the levels, defined through five distinct columns, suggest indicative and relative expectations to assess and rate the investments and track their progress over time.

At the basic level (Level 1), it is expected that the company at the minimum meets the legal and other regulatory requirements, where such requirements exist. Levels 4 and 5 normally reflect international best practice. Other levels (2 and 3) lie between these two positions. It should be noted that the levels (signifying ratings ranging from column 1 to 5) are not mutually exclusive and from level 2 onwards each level builds on the previous level to reflect incremental performance. It is likely that an investee company may not fall completely under a single level and may reflect indicators belonging to more than one level. The fund manager needs to make a judgement on the rating that is most appropriate for the investee performance.

This tool is sector agnostic and is framed in a manner that sector specific and other context specific requirements may be covered in the suggested benchmarks. For example, any sector specific legal or regulatory requirement may be covered in Level 1. Similarly, sector specific international best practice may be covered in levels 4 and 5. However, if required, new sector / context specific benchmarks / sub benchmarks may be added for a particular assessment.

Tool 12 is divided into three broad parameters – Environment (E), Social Development (S) and Governance (G). Each of these parameters is divided into benchmarks. For example, Environment has 3 benchmarks – environment impact and EHS; pollution prevention; and GHG emissions management. Assessments will first be made for each of the benchmarks for E, S and G.

The benchmark levels scores will be in whole numbers, ranging between 1 and 5. Simple average of these scores will be the score for a parameter. Suppose scores for the three benchmarks for Environment are 2, 1 and 3, respectively. The average of these 3 scores, i.e., 2 will be the score for Environment. Scores for other parameters can be worked out in the same way.

	1	2	3	4	5
ENVIRONMENT					
Environment Impact and Environment Health and Safety (EHS) Management Systems					
Minimize Impacts on Environment and Have Robust Management Systems.	Environmental, Health and Safety issues are identified and managed to meet (national and local) regulatory compliance requirements including the EIA process. Environmental monitoring system is designed to meet regulatory requirements.	Environmental issues are managed for regulatory purposes but few key operational procedures and management plans are available. EHS management is a dedicated and independent function but the role and responsibilities are not well defined. Basic EHS monitoring parameters are defined and company carries out basic monitoring and reporting over and above the required compliance requirements. .	There is a broad corporate commitment to EHS issues, demonstrated by a corporate policy on EHS. The policy refers to good practices and does not restrict itself to only regulatory compliances. An EHS team has been designated with the responsibility of EHS management with well-defined roles and responsibilities. The legal register is updated, and there is reasonable documentation on permitting. The company has a reasonable environmental management system, with evidence of monitoring and reporting. The EIA, wherever required, covers all the major sector specific issues, though still does not meet applicable international standards.	There are clear EHS policies at the corporate level, supplemented by a certified management system (e.g., ISO 14001). The policy states a commitment to meet international standards. There is clearly identified organisational structure on EHS management. The EIA, where required, has been conducted through a credible independent agency, and is scoped out accurately, and uses some international benchmarks and standards. The Environment Management Plan (EMP) has been further developed into Standard Operating Procedures (SOPs), and is monitored at regular frequency.	Excellent EHS management systems, certified against the relevant international standards (e.g., ISO 14001, OHSAS 18001), Corporate policies have been adopted by the various business units. EHS Systems monitored internally on a regular frequency and audited by a third party. Formal reporting system exists including submission to the management for review and actions. Demonstrated efforts made to minimize impacts of the company and its projects on environmental receptors. EIAs conducted to meet international standards. The company produces an environmental and / or sustainability report and discloses it in the public domain.
Pollution Prevention (Wastewater / Effluent, Emissions and Waste Management) and Resource Efficiency					
Wastewater / Effluent, Emissions and Waste Management; and **Resource Efficiency**	Pollution prevention measures are adopted to manage compliance requirements during construction and operational stages. Relevant Permits, Licenses, and records are obtained and maintained and	Pollution prevention measures are considered at all stages of project life cycle. Environmental management measures are	SOPs and management plans for a few high risk activities (like toxic effluent management, hazardous chemicals and waste management, etc.) are prepared and followed.	Documented SOPs for all environmental issues are not available but implementation on the ground is observed to be adequate and well managed.	Dedicated SOPs exist to manage environmental aspects like emissions management, effluent management, and waste management. Relevant and key sources of pollution

	1	2	3	4	5
	conditions laid out in the consents are complied with. Pollution levels meet the prescribed regulatory standards. Solid waste management processes have been designed to meet regulatory requirements.	adopted but are generally limited to meeting compliance requirements. Site is not segregating the hazardous and non-hazardous waste streams and is disposing the mixed waste together.	Environmental monitoring is conducted for a few essential parameters. Site is appropriately handling, segregating and disposing of the waste streams including hazardous waste in accordance with the laws and regulations. No specific measures have been adopted to conserve natural resources like reduction in water consumption quantity, reduction in raw material quantities or change in raw materials by adopting greener products. Efforts have been made to reduce and recycle waste, if any.	Environmental Management Plan (EMP) is prepared and implemented by the site. Site is recycling part of the treated wastewater within its premises. The company is implementing the 4 R's (reduce, reuse, recycle and recovery) of waste management but there is no documentation related to it. Monitoring covers all key parameters and is conducted regularly. Monitoring aspects cover regulatory requirements as well as requirements defined in the management systems. There is concrete evidence of efforts towards continual improvement and evidence of a systematic process towards waste reduction, reduction in use of resources like water and energy, etc.	are identified and quantified and the trend over a period illustrates reduction in quantities and magnitude. Site has implemented zero discharge [1] condition for wastewater management. Regular internal as well as third party monitoring (by government accredited lab) is conducted to manage effluent and emissions quality. Monitoring results demonstrate well managed pollution control systems. The waste management systems are benchmarked against internationally recognised standards like the IFC's general and relevant industry specific EHS guidelines or other internationally recognized good industry practices are followed. Sustainability is at the core of EHS management, and there are tasks and programmes in place to look at sustainability issues, resource efficiency, reuse and recycling and it has integrated 4 R's in waste management.
Greenhouse Gases (GHG) Emissions Management – Actions to reduce sources or enhance sinks of greenhouse gases					

(1) Complete recycling of wastewater generated within the company premises such that no wastewater is discharged into public drains or any other outlet leading outside the facility.

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Greenhouse Gases Emissions Reduction (applicable to only carbon intensive investments, e.g., cement, thermal power)	Some / no efforts have been made to reduce /offset GHG emissions at any stage of project lifecycle.	Some ad hoc measures have been adopted to reduce / offset GHG emissions.	Long term plans to reduce / offset GHG emissions exist, though no specific targets have been included in their policy.	Company-wide policy and programmes on GHG reduction exists. Direct GHG emissions from the facilities have been quantified in accordance with internationally recognized methodologies and good practice. Adoption of low carbon energy sources wherever possible to supplement main energy source.	EHS policy and procedures reflect specific commitment to reduce GHG emissions and being sustainable and has set tough targets. Technical / engineering alternatives have been considered and adopted to reduce GHG emissions during design and operation stage and measures have been taken to reduce GHG emissions. Company has adopted low carbon energy sources and renewable sources of energy, leading to substantial cost savings. The company has certified its reductions in GHG emissions and has applied for / received approval under Clean Development Mechanism. Both direct and indirect GHG emissions have been quantified and reported annually in accordance with internationally recognized methodologies and good practice.
SOCIAL DEVELOPMENT					
Labour and Work Force					
Provide safe and fair working conditions	Labour management for regulatory compliance Specific provisions against use of child or forced labour Contractors required to meet regulatory	Satisfactory compliance levels on labour laws including equal wages and minimum wages. HR policy available, but only focussed on	Contractors are monitored but only for regulatory compliance. HR Policy available to all employees. Where necessary, employee Standing Orders (if applicable) displayed.	A robust HR Policy, with additional commitments against discrimination of any kind, equal opportunities, provision for contract workers and their living conditions,	HR Policy and management systems that cover a number of additional commitments covering discrimination, equal opportunities, provision for contract workers

1	2	3	4	5
compliance for labour. Working conditions provided in compliance with requirements of law. Accommodation and facilities for the labour force is basic with scope for improvement on hygiene, sanitation, adequacy and quality.	employee benefits and requirement. No affirmative policies on inclusion, non-discrimination, equal opportunities, etc. No policy towards contractors, though legal provisions to be followed for the contract workers as per various labour laws are monitored. No provisions for collective bargaining, but informal systems of grievance redressal in place.	Internal labour audits conducted for employees, a formal system of employee communication and grievance redressal exists (including on sexual harassment). The grievance redressal system also includes the workers. The HR Policy and contract agreements has specific commitment towards non-tolerance of child labour and forced labour and clearly communicates requirements from employees as well as their benefits. Employee engagement demonstrated through active forums, though minutes of the meetings of such forums are not recorded or reviewed for actions taken.	provisions for employees transferred to remote locations, etc. HR Policy and procedures include contractors. Contractors are monitored for regulatory compliance as well as good performance. HR Policies and programmes disclosed and discussed on a regular basis. Regular labour audits and at least an annual third party audit. Trade Union or an alternative process of collective bargaining in place. Regular interaction between management and employees take place. A functional and documented grievance system clearly communicated to everyone. High level of awareness of rights and responsibilities as well as system among employees / workers. Provisions for women workers in accordance with regulatory and ILO requirements. Functional sexual harassment committee. Various forums for employee engagement and feedback. Meetings	and their living conditions, provisions for employees transferred to remote locations, etc., benchmarked against ILO standards in addition to regulatory requirements. A labour and contractor management plan in place. Internal as well as third party audits conducted and corrective action plans implemented. Inclusion of migrant workers / contract workers in welfare programmes as well as audits. Where relevant, a policy on retrenchment available. Provision of services like housing and transport where relevant. Contract workers have access to grievance systems. Effective collective bargaining systems: management and employees communicate on a regular basis. Employee engagement programme undertaken. Employee satisfaction surveys are regularly conducted and actions taken. HR Policy proactively looks at recruitment and retention of employees from vulnerable groups.

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				duly minuted, though no clear evidence of how these were followed up.	Functional and effective anti-sexual harassment committee. Structured formal and informal channels of employee / contractor engagement, minutes of meetings maintained and actions taken communicated back.

Social Impacts and Resettlement

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Minimize impacts and provide fair compensation and livelihood restoration	*For project with significant land acquisition and resettlement* Land acquisition process is led by the government and is in line with the existing law / regulation. Land acquisition process does not involve significant social issues such as physical displacement. The land acquisition process has resulted in some local opposition. Community development initiatives are limited to meeting demands.	Land and resettlement dependent on government processes but supported by company. The company has done an assessment of impacts but has not done anything to manage / mitigate them. Occasional protest in the community with regard to the project / company. One-off instance of support like donations for festivals, sports, etc. Responsibility for community relations not defined.. Handled in disorganized manner by non-specific people. Very little contribution to local employment and contract benefits for the community.	The company participates actively on land and resettlement issues and is working with the government. The company has documented a baseline profile of the area and documented the impacts. However, these impacts are managed in disorganized manner basis with no strategic focus. Non regulatory risks not covered. No history of protests but there are issues which could flare up leading to protests / violence without proper engagement. Small community development works carried out when requested for by community. Responsibility for community relations shared with other functions like HR / IR or Administration. Local employment and contract benefits shared with the community but on a very limited basis.	The company leads the land and resettlement process either through direct negotiations or working proactively with govt on rates, benefits, etc. There has been an assessment of social impacts done by the company and there is a management plan that is being implemented and monitored. The project / company enjoys good relations with the community and there is a broad community support. There is a strategic plan for community development which is being implemented. Clearly defined responsibility and designated personnel for management of community relations. The company / project contributes significantly to local employment and contractual benefits.	Land acquisition and resettlement done through willing buyer- seller arrangement based on good faith negotiations. A social impact assessment and resettlement action plan prepared and implemented based on international standards. The company has excellent relations and ongoing consultations with the community. A documented and long term community development plan based on needs assessment and which is being implemented. A team of dedicated and qualified people handling community relations and resettlement. A clearly documented local employment plan which has been communicated and agreed upon by the community.

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Social Inclusion					
Ensure inclusion of the marginalised and vulnerable groups	No evidence of any obvious discrimination against any groups and communities (based on gender, religion, caste, ethnicity, physical status, etc.). Employee profile does not demonstrate equal opportunity and inclusion. A generic baseline has been undertaken without specific identification of any marginal or vulnerable groups. There is a lack of guidelines to advise departments within the company on promoting social inclusion.	Policy makes commitments against discrimination but not enough evidence that this is being actively practiced. Development initiatives or CSR activities, if any, focus on community requests in general.	Policies in place that meet the rights, needs and interests of all groups on the principles of equity. Resources allocated accordingly. Effective HR procedures and processes. Access to jobs, work and facilities for all groups and categories. Needs and demands of vulnerable groups given a priority in developmental programmes (CSR or employee relations).	Clearly laid out affirmation / reservation policies for recruitment and retention. Key role of women and other groups in decision making and leadership processes. Incentives for employee behaviour in line with objectives of social inclusion. Dedicated programmes for vulnerable and marginalised groups.	Clearly laid out affirmation / reservation policies and stated commitment to international human rights conventions. Having women representation in the board / leadership and decision making process. Evidence of innovativeness in making organisation inclusive. Having ways and methods to promote inclusiveness. Incentivising social inclusion behaviour of employee and management staff. Dedicated welfare programmes for vulnerable and marginalised groups. A progressive plan to develop vulnerable workers and communities. Annual audit should also have a component of social inclusion.
Health and Safety					
Ensure health and safety of employees, workers and communities	Key documents required for ensuring compliance (like labour license, factories license, etc.) to key health and safety regulations are maintained. General health and safety conditions and working conditions of workers / labourers	Facility requires some improvement to meet requirements stated under governmental regulations and / or corporate requirements.	Facility is substantially in compliance with government regulations and / or corporate requirements with some improvements possible.	Facility substantially meets government regulations and / or corporate requirements. Need improvement to demonstrate compliance with IFC / OHSAS or any other international requirements.	Comply significantly with IFC / OHSAS or any other international requirements. No occurrence of injury / work related illness. No occurrence of damage due to any fire or explosion. No financial impact. No cases of business interruption

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	need to be improved. Recent occurrence of loss time accident (LTA) or fatality in the past two years and site is maintaining records of reportable accidents as required under law. .	Occurrence of LTA with permanent loss. Occurrence of significant irreversible internal damage due to fire or explosion. Business interruption between 12 to 24 hours primarily owing to health and safety related issues.	Occurrence of LTA with temporary incapability to work Occurrence of major but reversible damage due to fire or explosion. Business interruption between 8 to 12 hours primarily owing to health and safety related issues.	Occurrence of injury / illness without losing any man hours / first aid and minor injuries. Occurrence of minor reversible internal damage due to fire or explosion. Business interruption of less than four hours primarily owing to health and safety related issues. Site / business has dedicated Emergency Preparedness and Response system which covers both natural and manmade disasters / emergencies to mitigate any harm to people and / or environment.	primarily owing to health and safety related issues. Guidelines formed and implemented for provision of safety and security at work, especially for women. Defined H & S vision and mission with defined H & S management framework. Site / business has dedicated and dynamic Emergency Preparedness and Response system with sufficient resources, supporting infrastructure and well defined responsibilities. The ERP extends to include affected communities.
GOVERNANCE					
1. Disclosure & Transparency	Financial information is based on credible figures of profit, loss, liabilities and assets, and follows applicable laws.	Financial information is prepared in accordance with Indian Institute of Chartered Accountants (ICAI) standards and other applicable laws and regulations.	Financial information is prepared in accordance with ICAI standards and other applicable laws and regulations. Audit opinions on application of accounting standards are unqualified.	Financial information is prepared in accordance with ICAI standards and other applicable laws and regulations. Audit opinions on application of accounting standards are unqualified. Reports on basic ESG information.	Financial information is prepared in accordance with ICAI standards and other applicable laws and regulations. Progressively adopts early new standards in transition. Audit opinions on application of accounting standards and controls are unqualified. Adopts and reports on UN CoP or other standards for ESG reporting.

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2. Controls & Risk Management **i) Internal Audit & Control Functions**	Simple internal checks, by staff with other responsibilities.	Setting up of an internal control system for key areas of operations.	Board oversees the internal audit function that is commensurate with the size of the business. The internal audit function reports to the Board at least annually. In case an audit committee is required by law, such committee oversees the function.	Independent internal auditor or a CA firm is appointed who reports to the audit committee on an annual basis. The internal auditors have their plans, which is a risk based methodology approved by the audit committee, and	Independent internal auditor or a CA firm is appointed, which reports to the audit committee on a six-monthly basis. The internal auditors review the risks identified by the company and report to the audit committee on the results based on such risk assessment.
ii) External Audit	External audit according to law and applicable standards.	Audit firm conducts audits and reports on internal controls and deficiencies to the management.	Robust external audit, and internal compliance mechanism exists with audit committee oversight, if such committee is required, by law. Otherwise, BOD oversees the function.	The audit firm also comments on the adequacy of the system of controls and risks and reports to audit committee. Consider rotating audit partner every three years.	The statutory auditors report on adequacy of controls, risk management and integrity of financial information to the audit committee. Consider rotating audit firm every five years.
iii) Risk Management	Informal systems to identify and address basic risks.	Formal management systems incorporated for identification and mitigation of key risks.	Integrated risk management system, with reviews by internal auditors.	Formal risk management processes with risk mitigation measures in place and overseen by the BOD.	Formal risk management processes with risk mitigation measures in place and overseen by the BOD. Internal and external auditors report on the adequacy of such measures.
iv) Expenditure Reporting and Management Compliance	Simple annual expenditure reporting and budgetary processes. Systems are capable of tracking DFID fund provided to the investee company.	Six-monthly expenditure reporting to the BOD on budgets, actuals and compliances of investments / loan covenants.	Quarterly expenditure reporting and budgets reviewed by the BOD. The company has basic MIS system and performance indicators.	Formal budgetary expense and MIS reporting processes in place and all reports of results are reviewed by the BOD every quarter.	The management sets robust and documented business processes and certifies to the BOD the adequacy of all controls over key processes at least once a year.

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3. Board Of Directors or Equivalent Body	A board of directors or equivalent body exists or can be set up in the next six months for non-corporate entities. It deliberates key issues including ESG, independent of the executive, periodically.	Creating a minimum BOD size of three directors, with at least one of them being unrelated.	Audit committee, if required under the law, has independent director(s). Board reviews related party transactions, CEO remuneration, and ESG. BOD reviews adherence to investment and loan covenants.	BOD and audit committees are in place with special focus and oversight on risks, strategy, related party transactions, ESG compliances, and succession planning. BOD and internal auditor reviews adherence to investment and loan covenants.	BOD and audit committees function with special focus and oversight on risks, strategy, business reviews, related party transactions, ESG compliances, and succession planning. BOD and external auditors review adherence to investment and loan covenants.

4. Protection of Minority Shareholders	Respects rights of all owners and documents such rights and principles.	Follows all compliances as required by the Companies Act and not limiting to:
		
		• Disclosure of all significant information relating to minority interest.
		  • Upholding minority rights.
		  • Approval of related party transactions in the general meeting.
			Complies with all requirements of Companies Act and other laws.
			Sets a mechanism to review all transactions that affect minority shareholders.
			
			Sets up a minority redressal mechanism.
				Complies with all requirements of Companies Act and other laws.
				
				Appoints an independent director to review all matters affecting minority rights and interests.
				
				Sets a code of conduct for employees, vendors and customers.
					Compliance with Indian laws and also IFC principles.
					
					Appoints a board committee to look after minority grievances.
					
					Reviews by BOD of the effectiveness of the code of conduct.
					
					Sets up a whistle blower mechanism.

5. Commitment To Business Integrity	The business entity follows the applicable anti-corruption and counter fraud laws and regulations. It has, or is ready to, formulate and announce anti-corruption, counter-fraud (ACCF) policies (in three months) and a simple ACCF management programme (in six months) with a basic compliance mechanism.	The business entity has adopted a code of ethics conforming to DFIDI's business integrity guidance contained in its ESG framework including a compliance mechanism.	The code of ethics is being effectively implemented and the management reports annually on compliance to BOD and shareholders.	The business entity adopts an ACCF action plan based on detailed risk assessment, linked to funds flow. The business entity adopts mechanisms to effectively implement the ACCF action plan. The management signs off on compliance at least twice a year.	The ACCF action plan is effectively operational. Where applicable, in accordance with its AML / KYC policies, the business entity undertakes character risk due diligence (CRDD) to ascertain relevant information regarding the background and reputation of entities and individuals it plans to deal with. The management and BOD sign off on compliance of the codes at every quarter.