



SRI IN ASIAN EMERGING MARKETS:

INDIA

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SRI in Asian Emerging Markets

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Methodology

This Report was produced in collaboration with researchers in each country. Research has largely been conducted by telephone, face to face interviews, media and internet searches.

Disclaimer

ASRIA does not guarantee that every relevant organisation and individual has been covered in each market. With the resources available in each market, the reports make every effort to focus on key areas of relevance, to deliver data that is accurate and opinions that are objective and balanced.

Foreword



The expansion of Asia's private sector and its accompanying investment opportunities are forever changing the global economy. Yet as home to roughly half of the world's population, rapid industrialization, expansion of information technology, and urbanization underway throughout East and South Asia pose enormous challenges that must be recognized by private investors and governments alike. Hundreds of millions of people are in the process of moving permanently from the countryside to cities. Rapidly expanding businesses are making further demands on resources. Throughout the region, clean water, clean air, biodiversity, fisheries, fertile soils, and improved standards of living are all at risk because of unsustainable development.

For the most part, portfolio investors in Asia have yet to explicitly recognize the complex array of issues that could hinder long-term private business and investment returns. The socially responsible investment industry - a \$2.4 trillion worldwide industry that includes 760 retail funds and hundreds of institutional investors - has only just begun surfacing in Asia and has yet to fully demonstrate how its techniques can contribute to business performance. Research commissioned by IFC on the SRI industry indicates that SRI assets amount to only \$2.2 billion in all emerging markets, including Asia. That is less than one tenth of 1 percent of the worldwide total. Only \$1 billion in SRI assets is held by developing country investors.

Evidence shows that SRI investment approaches provide returns at least as strong as funds that don't take social, environmental, or corporate governance factors into account. Well-constructed and well-managed SRI funds have consistently proven to match or outperform their benchmarks. In the context of such enormous challenges facing Asia today, SRI has potential for contributing further to improved environmental and social conditions. SRI investors can also be a factor in improving long-term economic competitiveness by positively influencing corporate behavior and governance.

The International Finance Corporation, the private sector arm of the World Bank Group, shares the caution and conservative nature of most other financial institutions, in line with our fiduciary responsibility to shareholders. Yet in the process of nearly 50 years experience investing in developing countries we have learned how good investment returns are compatible with creating employment, a healthy environment, and an improved quality of life in developing countries. We set high standards for corporate governance and environmental and social performance and innovation, not only to fulfill our development mission, but because our investments in nearly 3,000 companies in 140 countries have demonstrated that there are valuable business benefits from initiatives that help progress toward sustainable development. IFC's experience would indicate that SRI investors likewise may be able to gain insight and better exploit hidden market opportunities by focusing on sustainability leaders.

The International Finance Corporation is fortunate to have been able to work with a partner like ASRIA to bring the message of sustainable investment to a wider audience. SRI has great potential in the emerging markets. Realizing this potential requires objective and thorough analysis of the investment opportunities and barriers; targeted programs of research, awareness raising and capacity building; and strong international partnerships to influence framework conditions and catalyze the market. The pioneering research undertaken by ASRIA and its partners for this report is another significant step forward. More needs to be done, and IFC and its Sustainable Financial Markets Facility look forward to playing their part.

We are grateful to the governments of the Netherlands, Switzerland, and Norway, whose cofounding enabled IFC to sponsor this important work.

A handwritten signature in black ink, appearing to read 'Javed Hamid', written in a cursive style.

Javed Hamid
Regional Director for East Asia & Pacific
International Finance Corporation

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1.0 EXECUTIVE SUMMARY

This SRI Country Profile for India provides the first overview of relevant recent trends and developments in the country.

To date, Socially Responsible Investment (SRI) funds have been notably scarce in India, but this situation may be set to change. If trends in East Asia are anything to go by, and if regulatory reforms are put in place, then the Indian investment market could soon witness a reasonable range of SRI funds for ethical investors in the not too distant future.

The potential for SRI in India could be bright.

For example, two years ago, Japan had just two SRI funds. Now, however, the country boasts eleven funds, with projections of a fivefold increase over the next two years.

Given the scale of development activity in India, a rich tradition of civil society organisations active on social welfare issues, and a vast consumer class, SRI could find fertile ground in the Indian investment market.

However, contra-indications also exist. Many within the Indian mutual fund industry believe that domestic demand for SRI funds does not exist at present. Specifically, there is a belief that a key prerequisite for SRI to find favour domestically - namely, socially-minded investors - does not exist in the country at present. However, there was a similar assumption by investment professionals in Japan before the launch of SRI funds proved them wrong. With strong religion and civil society tradition there is every reason to believe that Indian investors may be attracted to SRI funds if given the option, and if the funds are set-up and marketed effectively.

It may be too early to take a pro- or contra- view, but what is certain is that India Inc. is now much more attuned to the necessity of good corporate governance, and socially and environmentally responsible business (CSR) practice. Today the country is rightly able to boast leadership in certain sectors such as ICT and a number of leading companies are looking to go beyond rhetorical commitment to CSR to a sincere embrace. If this trend can be strengthened by domestic consumer and investor pressure, and government leadership, then prospects for SRI in India may look bright indeed.

In conclusion, our review of the situation in India has shown that the following appear to be key factors for the successful adoption of SRI in India:

- imagination in identifying key potential domestic markets and designing appropriate financial products;
- awareness-raising around SRI issues to create a receptive local culture on both the business benefits AND the social and environmental gains from an SRI approach to investment;
- embedding of a credible corporate governance regime in India, and sincere take-up by domestic corporates, to gain confidence from international investors;
- education, leadership and mobilisation by key financial institutions, corporates and civil society actors to promote SRI in India;
- supportive economic reforms, and public policy regimes, that emphasise core SRI principles of sustainable development, equity and profitability.

2.0 SRI FUNDS

2.1 Domestic SRI Funds

We have been able to identify three SRI options in India at present: JM Mutual Fund's JM Heritage Fund, Inheritance India's investment opportunities, and TATA AIG Life Insurance's scheme for the rural poor. This is in itself quite an encouraging sign given the challenges in creating an SRI-friendly domestic environment.

SRI already has a foothold in India.

2.1.1 JM Asset Management Company www.jmmutual.com

JM Heritage Fund is perhaps the only true SRI fund in India. The fund launched by JM Asset Management Company caters to the needs of investors with strong personal ethic codes. The scheme, structured as a balanced fund, will invest in equity and debt, would focus on 'ahimsa' or non-violence. The 'Ahimsa' fund would provide investors with two options - income and balanced. The second plan is a growth-cum-income plan that invests in both equity and debt. A small percentage of the fund management fees are kept for donation to charities involved in animal welfare. Typically, JM Heritage fund invests in areas like petrochemicals, auto, metals, banking and finance, engineering and technology. It might also consider FMCG and pharmaceutical companies, provided such outfits meet the requisite criteria with respect to cruelty issues. Animal rights activists and organisations such as Beauty Without Cruelty and People for the Ethical Treatment of Animals (PETA) are advisors to the ethical fund¹.

2.1.2 Inheritance India Land Conservation Company Private Limited www.inheritanceindia.co.in

Inheritance India invests in land close to ecologically sensitive areas, and in related conservation projects. In its publicity material, the company notes that this brings meaningful returns for clients, while preserving and restoring precious natural land and heritage structures.

Currently, Inheritance India invests in land lying along the Western Ghats in Kerala, the southern most state of India. This area is one of the 25 "biodiversity hotspots" of the world as declared by the United Nations. This area has over 1700 species of plants, 22 species of small mammals, 95 species of reptiles and 90 species of amphibians. In just 2 hectares, over 55 species of trees measuring over 10 meters in height have been identified.²

Inheritance India follows stringent guidelines to find land with important ecological aspects that are underdeveloped. Restoration work is then done to bring the local ecology back into balance before development begins. Buildings and communities are developed with the intention of having little to no impact to the earth while also working to benefit the heritage of local people. The company declares that its business model is a coming together of conservation planning with financial expertise to produce a win-win strategy that makes money for the investor as well as contributing to the health of the planet.

¹ www.karvy.com/articles/ethical30062001.htm

² www.inheritanceindia.co.in/index.htm

2.1.3 Tata AIG Life Insurance Company Ltd

www.tata-aig.com

Tata AIG Life Insurance Company Ltd has launched 'Project Micro-Insurance' for the landless daily-waged rural poor in Andhra Pradesh. The objective of this project is to alleviate poverty through significant initiatives, including financial reforms.

The rural insurance initiative of Tata AIG is being financially supported by the Financial Deepening Challenge Fund (FDCF) set up by the British Government's Department for International Development (DFID). This fund will help in micro-insuring the lives of landless daily waged rural poor in the state of Andhra Pradesh. As per this agreement, FDCF will be contributing Rs 65 lakh³ while Tata AIG will contribute Rs 75 lakh, thus taking the total corpus for 'Project Micro Insurance' to Euro 193,500 (Rs 1.4 crore). This is in addition to the ongoing initiative of spreading rural insurance in the states of Tamil Nadu and Karnataka through the strategic tie-up with the Bridge Foundation.

2.2 Mutual Funds

2.2.1 An Overview

The mutual fund industry in India began with the establishment of the Unit Trust In India (UTI) in 1964 by the Government of India. Over the last 39 years, UTI Asset Management Company has grown to be a dominant player in the industry presently managing 42 NAV based domestic SEBI (Securities Exchange Board of India) compliant schemes and four Offshore funds having a corpus Rs.15,243 crore (US\$317.56 million) from about 10 million investor accounts.

The UTI is governed by special legislation, the Unit Trust of India Act, 1963. In 1987 public sector banks and insurance companies were permitted to set up mutual funds and accordingly since 1987, six public sector banks have set up mutual funds. Also the two insurance companies LIC (Life Insurance Corporation) and GIC established mutual funds. The Securities Exchange Board of India formulated the Mutual Fund (Regulation) 1993, which for the first time established a comprehensive regulatory framework for the mutual fund industry. Since then several mutual funds have been set up by the private and joint sectors.

2.2.2 Growth of Mutual Funds

The Indian Mutual Fund industry has passed through three phases or generations of development. The first phase was between 1964 and 1987 when the only player was the UTI. The second phase was between 1987 and 1993 which saw eight funds being established (six by banks and one each by LIC and GIC). During this time, the total assets under management grew to Rs 61,028 crores (US\$1271.42 million) by the end of 1994 and the number of schemes to 167.

The third phase began with the entry of private and foreign sectors in the mutual fund industry in 1993. Kothari Pioneer Mutual fund was the first fund to be established by the private sector in association with a foreign fund.

As on March 31, 2003, 382 schemes with an aggregate sale of Rs. 314,673 crores (US\$6555.68 million) were operated. Assets under management were Rs.79,464 crores (US\$1655.50 million)

³ 1 Lakh = Rs 100,000

*Private funds have
been gaining ground.*

without taking into account the assets under management of the Specified Undertaking of the Unit Trust of India which were Rs.29,835 crores (US\$621.56 million) as on January 31, 2003.

In the past two years, private funds have been consolidating and gaining ground. They now manage three-quarters of the Rs 1 trillion (US\$21 billion), up from 47 per cent a year ago. The value of assets managed by private firms has climbed by 69 per cent since June 2002⁴.

2.2.3 List of Asset Management Companies in India⁵

A) Bank Sponsored

- a. BOB Asset Management Co. Ltd.
- b. Canbank Investment Management Services Ltd.
- c. PNB Asset Management Co. Ltd.
- d. SBI Funds Management Ltd.
- e. UTI Asset Management Company (P) Ltd.

B) Institutions

- a. GIC Asset Management Co. Ltd.
- b. IDBI Principal Asset Management Co. Ltd.
- c. IL & FS Asset Management Co. Ltd.
- d. Jeevan Bima Sahayog Asset Management Co. Ltd.

C) Private Sector

1. Indian

- a. BenchMark Asset Management Co. Ltd.
- b. Cholamandalam Asset Management Co. Ltd.
- c. Escorts Asset Management Ltd.
- d. J.M. Asset Management Ltd.
- e. Kotak Mahindra Asset Management Co. Ltd.
- f. Sundaram Asset Management Company
- g. Reliance Capital Asset Management Ltd.

2. Joint Ventures - Predominantly Indian

- a. Birla Sun Life Asset Management Pvt. Co. Ltd.
- b. Credit Capital Asset Management Co. Ltd.
- c. DSP Merrill Lynch Fund Managers Limited
- d. First India Asset Management Private Ltd.
- e. HDFC Asset Management Company Ltd.
- f. Tata TD Waterhouse Asset Management Private Ltd.

3. Joint Ventures - Predominantly Foreign

- a. Alliance Capital Asset Management (India) Pvt. Ltd.
- b. Deutsche Asset Management (India) Pvt. Ltd.
- c. Dundee Investment Management & Research (Pvt.) Ltd.
- d. HSBC Asset Management (India) Private Ltd.
- e. ING Investment Management (India) Pvt. Ltd.
- f. Morgan Stanley Investment Management Pvt. Ltd.
- g. Prudential ICICI Management Co. Ltd.
- h. Standard Chartered Asset Mgmt Co. Pvt. Ltd.
- i. Sun F & C Asset Management (I) Pvt. Ltd.
- j. Templeton Asset Management (India) Pvt. Ltd.

⁴ Association of Mutual funds in India: www.amfiindia.com

⁵ Source: www.indiaonline.com

2.2.4 Future Scenario

The asset base is expected to continue to grow at an annual rate of about 30 to 35 per cent over the next few years as investors shift their assets from banks and other traditional avenues. Takeovers are likely to hit the headlines and result in further consolidation with more multi-national players entering the Indian market.

The industry is also having a profound impact on financial markets. While UTI has always been a dominant player on the bourses as well as the debt markets, the new generations of private funds, which have gained substantial mass, can now be seen flexing their muscles. A much-welcomed development is that many fund managers have forced corporate governance on the industry through careful selection criteria for stocks. By rewarding honest and transparent management with higher valuations, a system of risk-reward has been created where the corporate sector is more transparent than before. Funds have shifted their focus to the recession free sectors like pharmaceuticals, FMCG and technology.

Mutual funds are now also competing with commercial banks in the race for retail investors' savings and corporate float money. In this process, the power shift towards mutual funds has become obvious. The coming few years will show that the traditional saving avenues are losing out in the current scenario. Many investors are realising that investments in savings accounts are as good as locking up their deposits in a home safe. The trend in fund mobilization by mutual funds in the recent period clearly indicates that money is heading their way in a big way.

Funds are gaining popularity over bank accounts.

2.3 Pension Funds

The pension funds market in India is virtually untapped compared to other developed markets of the world. For example, whereas in the USA, pension accounts for about 49 per cent of the insurance policies sold each year, in India less than one per cent of the market has been covered with pension items.

Pension funds in India are twice the size of mutual funds and if given the freedom to invest productively they can even make a significant contribution to the development of India's capital markets.

The Confederation of Indian Industry (CII) has called for speedier pension reforms as the Indian population is ageing rapidly and about 9 per cent of the population expected to be over 60 years of age by 2016. At present, however, the Employee Provident Fund (EPF) and Employee Pension Scheme (EPS) cater to only about 11 per cent of the organised sector⁶.

These funds are currently estimated to amount to Rs. 2.5 trillion (US\$52.1 billion). Historically, these funds could only be invested in government securities, and tended to earn low returns.

There are signals, however, that an 'interim' Pension Fund Regulatory Development Authority may be set up soon to draw up new legislation for the pensions sector. This body will decide on the number of pension fund managers that should ideally operate in view of economies of scale criteria, as well as oversee nodal agencies such as a proposed central record keeping agency and other intermediaries. A concrete pension reforms package is expected to come into force with effect from January 1, 2004.

⁶ Business Standard, 14 July 2003

Of the 12 private sector life insurance companies, almost all are planning pension products to cash in on the boom time. In the private sector pension market, ICICI Prudential Life holds 73 per cent share as of January 2003, despite the entry of many new entrants during the year. This translates into a 24 per cent share of the overall pensions market amongst life insurers (private players account for about 32 per cent of the entire pensions market)⁷.

2.4 Global SRI Funds

In our review, we have not come across any global SRI fund registered for sale in India or with significant holdings in the domestic market.

3.0 SRI RELATED ORGANISATIONS IN INDIA

3.0.1 Global Environment Fund www.globalenvironmentfund.com

Global Environment Fund (GEF) is an international investment management firm established in 1989 to invest in, and provide management support to, companies that make positive contributions to environmental quality, human health and the sustainable management of natural resources. Through its private equity investment funds, individually managed accounts and principal investment activities, GEF has completed more than 30 private equity or early stage investments in businesses operating in a broad array of economic sectors and in all major geographical regions of the world. Today, the firm's private equity portfolio includes controlling or major interests in fast-growing, entrepreneurial companies whose aggregate sales are in excess of \$2 billion.

GEF's portfolio companies own and operate critical infrastructure systems that deliver the basic essentials of life, or provide life-enhancing technologies to industries and consumers. Sectors of particular interest include: clean energy; water/wastewater treatment; sustainable forestry and forest products; healthcare; efficient transportation; integrated waste management; technology that promotes improved efficiency and safety in energy use, industrial processing, telecommunications, and healthcare.

In India, GEF has invested in Niko Resources Ltd., the Indian asset of Niko (a Canadian natural gas and oil exploration, production, and distribution company now listed on the Toronto Stock Exchange (NKO)). Its principal Indian asset is the Hazira field, encompassing a 50 square kilometre block that straddles the shore of the Gulf of Cambay, in the State of Gujarat, southwest of the city of Surat. Niko's current activities are focused on developing, placing into production, and delivering natural gas from this one-third owned and Niko operated gas field. The company's production facilities have been constructed in compliance with industry, country, and World Bank environmental standards.

⁷ Pension funds: The next boom business, The Indian Express, March 23, 2003

3.0.2 The Calvert Foundation

www.calvertfoundation.org

Calvert Social Investment Foundation has Investment, Research and Donation products that support community development organizations, across the country and around the world. Through socially responsible investment, the Foundation supports affordable housing, micro-credit, minority lending, small business and social enterprise programs.

Calvert Foundation offers several community investment options that can transform capital into economic opportunities for the needy. It ensures that through these different community investment programs below-market investment is safe and effective.

The foundation's loan portfolio is backed by security enhancements of US\$8+ million. The foundations maintains that this is effective because it performs rigorous due diligence and monitoring on the organizations in its portfolio to make sure they are financially strong organizations that have real social impact.

Calvert Foundation has invested US\$50,000 in CASHPOR Financial and Technical Services Private Limited, India, a micro-credit scheme based in Uttar Pradesh with over 13,000 women borrowers and a 92% repayment rate⁸.

3.0.3 Asian Development Bank (ADB)

www.adb.org

ADB's cumulative lending to India as of 31 December 2002 was US\$11.64 billion. In 2002 it approved seven loans for six projects - five public sectors and one private sector, totalling US\$1,183.6 million. The projects aim at developing the East-West Corridor, developing roads in Madhya Pradesh, reforming the state power sector, improving railways, and modernizing government and fiscal reform in Kerala. The private sector loan of US\$20 million equivalent in local currency was approved for a medical services network.⁹

Twenty-six technical assistance loans totalling US\$13.2 million and three grants - modernising government and fiscal reform in Kerala, rainwater harvesting and slum development in Rajasthan, and sustaining income and basic human needs of the poor in disaster-prone areas of Gujarat - totalling US\$55.3 million were approved.

ADB also approved two equity investments totalling US\$25 million in an infrastructure fund to help finance private sector infrastructure projects and in a mortgage guarantee company in India.

3.0.4 Global Fund to Fight AIDS, Tuberculosis and Malaria

www.globalfundatm.org

The Global Fund for ATM attracts, manages and disburses additional resources through a new public-private partnership that makes a sustainable and significant contribution to the reduction of infections, illness and death, thereby mitigating the impact caused by HIV/AIDS, tuberculosis and malaria in countries in need, and contributing to poverty reduction as part of the Millennium Development goals.

In India, the Fund has committed US\$140 million for the prevention and control of HIV/AIDS and tuberculosis. The fund supports comprehensive approaches to fight AIDS, TB and malaria, government and NGOs.

⁸ www.gfusa.org/replications/india.html#CFTSI

⁹ adb.org/INRM

3.0.5 The International Finance Corporation (IFC)

www.ifc.org

Since 1956, IFC has invested in 142 companies in India, providing nearly US\$ 1.9 billion in financing for its own account and US\$ 387 million for the accounts of participants in IFC's loan syndication program.

With a portfolio of US\$ 632.6 million (as of March 2002) India is the third largest country of IFC's operations after Argentina and Brazil. In India, IFC focuses on supporting the following activities

- Private sector involvement in infrastructure financing;
- Restructuring and modernization of the manufacturing and services sectors to become internationally competitive;¹⁰
- Development of new financial institutions and products.

By working on the frontiers of private investment, IFC helps bring commercial disciplines and entrepreneurial dynamism to new areas of the economy. It also supports private investment in health and education, and innovative applications of information technology.¹¹

3.0.6 The World Bank Group

www.worldbank.org

The bank's India portfolio is its second largest in the world, comprising 69 ongoing projects with a net commitment (as of September 2002) of US\$ 12.9 billion.

Transport constituted 41 per cent of new lending, or US\$ 2.7 billion, followed by rural development and energy. Structural adjustment loans/credits represented 11 per cent of the total. New lending for health and education was 9 per cent, considerably less than their combined 26 per cent share of the portfolio.

3.0.7 Credit Rating Information Services of India Limited (CRISIL)

www.crisil.com

CRISIL states that it offers a comprehensive range of real time news, analysed data, incisive insights and opinion, and expert advice on economy, industry, mutual funds, and infrastructure, to enable investors, issuers, policy makers de-risk their business and financial decision making, take informed investment decisions and develop workable solutions. CRISIL helps to precisely understand, measure and calibrate myriad risks - financial and credit risks, price and market risks, exchange and liquidity risks, operational, strategic and regulatory risks.

¹⁰ www.ifc.org/southasia/India.htm

¹¹ Article source: Financial Express, March 3, 2003

4.0 NGOS IN INDIA

A number of well-intentioned policy initiatives have been instituted by the Indian Government to try and achieve a balance between economic growth, social development and environmental protection. Yet results continue to be uneven. This is due to a number of factors including: lack of policy and programmatic co-ordination, projects not being brought to effective scale for optimum impact, unevenness of political will in India's vast and diverse states, lack of imaginative resource generation and implementation partnerships, and chronic resource and monetary constraints.

The Government is a signatory to important international agreements on sustainable development and has passed legislation on a range of key environmental protection issues, such as water and air pollution, recycled plastics manufacture, hazardous wastes, wildlife protection, etc. It has also set up co-ordinating bodies to oversee environment and sustainable development issues, including the Ministry of Environment and Forests (envfor.nic.in/). But there is a lack of joined-up coordination with other key ministries to ensure coherent and integrated sustainable development benefits.

In its Country Report¹² to the United Nations on sustainable development, the Government notes that: 'in India there are several ongoing projects which are being implemented through various bilateral programmes with global development agencies. The largest share is for poverty eradication, natural resource protection and capacity building in that order.' However, in terms of funding, the programs are limited by stringent budgetary constraints. At best, only a modest reallocation of resources is feasible. The report notes that 'the amounts are miniscule compared to the needs of the country.' It also notes that active involvement by the private sector in the funding and implementation of sustainable development is critical.

Realizing the importance of Environmental Information, the Government of India, in December 1982, established an Environmental Information System (ENVIS)¹³ as a data resource. The focus of ENVIS since inception has been on providing environmental information to decision makers, policy planners, scientists and engineers, research workers, etc. all over the country. The Government has also set up two centres of Excellence, namely the Centre for Environment Education, Ahmedabad and the CPR Environment Education Centre, Chennai, which are intended to provide capacity building support to NGOs.

The Government has instituted a number of donor-aided partnership programmes on the environment with industry, consumer associations and others, to promote sustainable consumption and production patterns. These include an Ecomark Scheme, a Green Rating Scheme, and a scheme to promote the adoption of ISO 14001 certification. Adoption of Cleaner Production Technologies, and formation of Waste Minimization Circles, are also being encouraged to minimize environmental pollution. Under the World Bank-aided Industrial Pollution Control Project, technical and financial assistance is provided for establishing Common Effluent Treatment Plants (CETPs) in clusters of small-scale industrial units.

The Government has also launched awareness campaigns through the print and television media to stress the need to save scarce water, energy, and petroleum resources. Awareness campaign programmes to promote sustainable consumption patterns are carried out through Programmes of Quality Council of India/BIS/MOEF/CPCB/Consumer Protection Councils.

¹² www.un.org/esa/agenda21/natinfo/countr/india/eco.htm

¹³ www.envis.nic.in

For the past decade, India has been committed to an economic liberalization process predicated on the privatization of state-owned industries and the deregulation of several sectors of the economy. These processes are creating ever-increasing opportunities for the involvement of the private sector, and financial markets, not just in economic policy but also in broader sustainable development policies including environmental protection, employment generation, health and education. There is, therefore, increasing scope for the inclusion of SRI criteria into market decision-making as a means of furthering sustainable development objectives.

The Government clearly has an important role to play in supporting the adoption of SRI criteria in financial decision-making. For example, pension funds are just one area where the Government can exert a positive influence. Further research is needed, however, to identify other areas so that the Government can systematically begin to apply its varied powers to promoting sustainable and responsible investment in India.

5.0 NGOS IN INDIA

India is well known in international development circles for the diversity and richness of its civil society organisations, including non-governmental organisations (NGOs). Varying estimates put the number of non-profit organisations in the country at more than several hundred thousand. The limits of state effectiveness, and the colossal need in the country for social services, has meant that the majority of these NGOs have been largely concentrated in the social welfare and relief sector. In terms of size, these organisations range from modest grassroots-based community organisations to vast supertanker NGOs such as the TATA Rural Development Society.

Increasingly, however, NGOs are beginning to diversify in both thematic concentrations and their nature of operations. Now NGOs can be found in every sector from efforts to promote literacy to disability rights, and from women's empowerment to environmental justice. NGOs are also beginning to shift in function from basic service delivery to research, education, project management, advocacy and consultancy.

5.1 NGOs Active In CSR And SRI

SRI has not been an explicit focus of research or advocacy attention in India as yet with the exception of the work of the Centre for Social Markets (CSM).

5.1.1 The Centre for Social Markets (CSM) www.csmworld.org

CSM is an India and UK-based non-profit international organisation dedicated to making markets work for the triple bottom line - people, planet and profit. A values-based organisation, CSM is a leading force in India, and internationally, on CSR education, training, research and advocacy. The organisation has an explicit focus on five key market actors business, investors, workers, consumers and legislators, particularly in developing and transition countries, with a view to engaging them in the movement for sustainable development, ethics and accountability. CSM has also pioneered work with ethnic minority and diaspora communities, such as overseas Indians and Chinese in industrialised countries, and focuses on domestic industry, rather than foreign MNCs, in developing countries such as India.

CSM holds an Annual Conference on Corporate Citizenship in India and has also developed the first website portal dedicated to CSR in developing countries. The organisation also administers a regional e-list serve, CSRAsia, to promote information exchange and learning in the region.

Since 2001, CSM, a member of ASrIA, has also pioneered awareness-raising, research and advocacy on SRI issues in India. This began with the first session on the subject in the country at its 1st Annual Conference on Corporate Citizenship in Kolkata in 2001 and more recently with the 1st International Conference on SRI in India in Sept. 2003 in Mumbai with ASrIA, and collaboration with SRI leaders such as the Calvert Group.

Further details on CSR and SRI in countries such as India can be found on CSM's website (www.csmworld.org) and Portal (www.csmworld.org/portal) on the subject. A "Who's Who on CSR in India: A Resource Guide", published by CSM and Ogilvy & Mather India, will be available in December 2003.

In recent years, a number of other NGOs have also emerged in response to the international movement for corporate social and environmental responsibility. Some, such as Partners in Change and Business & Community Foundation have been set up by foreign parent organisations - in this case Action Aid and the Prince of Wales Business Leaders Forum respectively. This type of NGO provides services and promotes partnerships with corporate members.

5.1.2 Partners in Change (PiC) **www.picindia.org**

PiC is registered as a Society and its auditors are PriceWaterhouseCoopers. Currently, ActionAid India, The Ford Foundation and some of its corporate partners provide financial and technical support. PiC has come together with ActionAid India, Books for Change, Praxis and Sabala to form a Strategic Alliance of Organisations (SAO).

PiC is a founder member of South Asian Alliance for Responsible Business (SARB), in partnership with the Confederation of Indian Industry (CII). SARB seeks to further the cause of CSR in South Asia. The group comprises participants from Nepal, Pakistan, India, Bangladesh and Sri Lanka. PiC also acts as a Secretariat to the UN Global Compact in Mumbai.

PiC helps businesses at various stages of adoption of CSR by identifying the stakeholders and their relevant issues; development of CSR policy and guidelines; training/sensitising company staff on social developmental issues; benchmarking a company's social responsibility programme to ensure that it is internally and externally consistent; identifying partners - NGOs, community groups, government departments and managing these relationships; resource allocation for CSR; social performance evaluation and reporting.

5.1.3 Business and Community Foundation (BCF) **www.bcfindia.org**

BCF is a not-for-profit business coalition, established in New Delhi by Indian and International Companies, in association with the Prince of Wales International Business Leader's Forum, (IBLF), UK an international educational charity founded by HRH the Prince of Wales.

The BCF works as an intermediary, mobilising the core competence and resources of its members and other key shareholders and facilitating their working in partnerships on projects benefiting the business and the society. For instance, the foundation organised a consultation for the ABB group to finalise a strategy document on social issues for its interventions in India. The objective of this consultation held on the 6th of August, 2002 was to share its global social policy document with different stakeholders, understand localised approach, local needs and local issues and work toward a need based country policy for India.

5.1.4 International Resources for Fair Trade **www.irft.org**

Another type of NGO is the Mumbai-based International Resources for Fair Trade, established in response to the need for domestic monitoring, verification and training of domestic suppliers for foreign retailers and working closely with the international fair trade community.

5.1.5 The Global Alliance for Workers and Communities (India) **www.theglobalalliance.org**

Yet another type of NGO, The Global Alliance for Workers and Communities (India), promotes an explicit pro-labour agenda providing worker support services to domestic subsidiaries of foreign corporations, in an effort to raise industry standards in the garment and footwear sector.

5.2 Research And Development NGOs And Voluntary Organisations

These newer NGOs and initiatives complement pre-existing relationships between two other types of NGOs and industry: 1) research and development NGOs such as The Energy and Resources Institute (formerly the Tata Energy Research Institute), Development Alternatives, and the Centre for Science and the Environment which have maintained specific industry-focused programmes and issue-specific campaigns; and 2) voluntary organisations which have worked with business foundations and plants to deliver specific services such as education and health.

5.2.1 The Energy and Resources Institute **www.teriin.org**

TERI activities relate to every aspect of sustainable development. From providing environment-friendly solutions to rural energy problems to helping shape the development of the Indian oil and gas sector; from tackling global climate change issues across many continents to enhancing forest conservation efforts among local communities; from advancing solutions to growing urban transport and air pollution problems to promoting energy efficiency in the Indian industry.

According to TERI, India figures among the world's top 10 contributors to greenhouse gas emissions, but its relative share is low in terms of per capita emissions (only one-sixth the world average). Because of India's heavy reliance on coal and a rapidly rising population, however, that figure has nowhere to go but up unless new measures are taken.

More than 40 top Indian companies currently undertake energy auditing every year at TERI, with an additional 150 subject to self-auditing and examination. Sixteen leading corporations are active members of India's Corporate Network on Environment, which attempts to identify key problem areas and develop strategies in the field of industrial sustainability.

5.2.2 Development Alternatives **www.devalt.org**

The Development Alternatives works towards innovation and dissemination of the means for creating sustainable livelihoods on a large scale, and thus mobilise widespread action to eradicate poverty and regenerate the environment.

Development Alternatives works with partners in all sectors: government, international agencies, public and private sector institutions and grass root voluntary organisations. The responsibility for providing support to such partnerships lies with the respective functional units of the Development Alternatives Group.

5.2.3 Centre for Science and the Environment (CSE)

www.cseindia.org

CSE is an independent, public interest organisation, which aims to increase public awareness on science, technology, environment and development. Since its inception in 1980, CSE has been creating awareness about the environmental challenges facing India. With a problem-solution approach it has been instrumental in policy changes and reforms placing people at the centre.

CSE has launched a number of campaigns in the area of air and water pollution to raise consumer awareness and increase pressure on policymakers. For example CSE's Right To Clean Air campaign seeks to improve the air quality of Delhi, one of the most polluted cities in the world. The main plank of the six-year-long campaign was to push the government to introduce an alternate fuel policy and mandate the use of clean fuels, such as compressed natural gas (CNG) for public transport. The efforts of the Clean Air campaign were vindicated in a 2002 Supreme Court ruling in April 2002 mandating all public transport to run on CNG.

5.2.4 Consumer Unity & Trust Society (CUTS)

www.cuts.org

CUTS focuses on information dissemination, awareness building and lobbying industry and government on issues of sustainable production and consumption, with a particular focus on environment-friendly technologies. For example, CUTS launched a two-year awareness raising project on the Ecofrig to promote environment-friendly refrigerators for Indian consumers in 1998, and other campaigns on consumer rights in states such as Rajasthan.

Attitudinal surveys to measure the importance of environmental or social issues to Indian consumers are comparatively in their infancy compared to western countries. Many large companies are known to conduct such surveys for market research but this information is seldom in the public domain. Assessing, and influencing, consumer attitudes is set to be a growth industry in the coming years however.

The Tata Energy Research Institute (TERI) has published valuable research based on a poll of Indian public attitudes to corporate responsibility in India, which indicated that the Indian public is concerned about these issues and does expect higher CSR standards from Indian corporates. "Indians feel that the business sector must play a wider and more expansive societal role." (Altered Images, the 2001 State of Corporate Responsibility in India Poll, TERI Europe, p.20): Full Report linked to this ASRIA India Report on the ASRIA website).

6.0 CSR IN INDIA

As noted above, the international CSR movement has certainly arrived in India. Many leading foreign MNCs and domestic titans, pre-eminently members of the Tata Group, have been standard-setters on core CSR issues such as labour conditions, health and safety, environmental management, corporate governance and integrity. India also has its own counterparts of 19th century Victorian industrialists and Quaker social reformers such as the Lever Brothers and Cadbury family who established company towns such as Port Sunlight and Bourneville in Britain. The Indian counterparts include the Tata and Godrej families, from India's Parsi community, who continue to have a significant industry presence and reputation for social responsibility. One of the Tata Group of companies, Tata Steel, is the first in the country to produce a corporate sustainability report and administers the only industry town in the world, Jamshedpur, which has received ISO14001 environmental quality certification.

Given the increasing importance given to CSR in corporate circles world-wide, and attendant public pressure for corporate probity, many leading Indian corporates have been keen to broadcast their CSR credentials. Regrettably this is too often more a public relations exercise relying on slick advertising, rather than a true reflection of a well-thought out committed business strategy and corporate culture predicated on CSR values. A handful of Indian companies and MNCs operating in India have begun to produce environmental and social reports. These companies include, Infosys, the Tata Group, Ballarpur Industries Limited, Paharpur Business Park, Ford India, Samsung India Electronics, and Cadbury's India.

In recent years, some large and increasingly image and market-conscious Indian companies have started signing up to voluntary international CSR initiatives. The UN Global Compact (www.unglobalcompact.org) is a good example. There are now some 87 Indian companies which have signed up to the Global Compact's nine principles on human rights, labour and the environment. Leadership by a handful of corporate leaders such as Infosys and Tata, and importantly, persistence by local advocates, have been crucial to this.

As ever, however, the proof of such voluntary commitments will lie in performance being commensurate with promises. Organisations like CSM are involved in the UN Global Compact with the explicit purpose of promoting not only the aims of the Compact, but also meaningful domestic compliance with its objectives. In India, as elsewhere, verification of corporate commitment to voluntary efforts is still a long way off and will require both stakeholder partnership and independent oversight.

The Confederation of Indian Industry (CII) (www.ciionline.org) India's largest industry body has taken a noteworthy lead in promoting CSR amongst its membership. It has adopted a set of Social Principles with UNDP India and has appointed CSR officers in its regional offices. This has set a positive example to other industry bodies in India such as FICCI (Federation of Indian Chambers of Commerce & Industry), which have also held CSR-related events.

There is a need, however, to move beyond one-off events towards the development of a more systematic and inclusive approach by industry bodies in partnership with NGOs, trade unions and other stakeholders. This will be critical to the successful mainstreaming of CSR in Indian business and industry - especially in the absence of a vibrant consumer movement as a key driver.

The profiles below provide an illustration of some of the CSR activities that corporates are beginning to advertise in India. This list is not meant to be comprehensive but only to provide a snapshot from different industrial sectors in the country.

6.0.1 IBM India

www.ibm.com/in

In India, one of IBM's major initiatives in the area of Corporate Community Relations (CCR) has been in the setting up of the Gandhi Institute of Computer Education and Information Technology, in partnership with the Bharatiya Vidya Bhawan. Set up in Mumbai, Delhi, Gopalganj and Hazirabagh, it provides free computer education to students from the economically weaker sections of the society. The company has also partnered with the Victoria Memorial School for the Blind in Mumbai and donated PCs and other equipment to open a computer centre for imparting training to visually-impaired students from the disadvantaged sections.

Kidsmart is another CCR programme being rolled out in India by IBM. It aims to use IT to give pre-school children, from the age of three to seven, from economically weaker sections, a jump start in their education through the use of age-appropriate software developed by the company. While IBM's team of volunteers and experts from Global Crisis Management Team helped during the Gujarat quake, there are other continuous efforts like EXITE (Exploring Interest in Technology and Engineering) camps to generate interest in maths and science among young women; and donations of refurbished computers, etc.

6.0.2 ING Group

www.ingvysyalife.com

ING Group has launched the ING India Foundation for Social Development with an initial seed capital of Euro100,000 (Rs 4,300,000), targeted to benefit a variety of social goals including child poverty alleviation and education for women.

ING Group is one of the world's leading financial institutions and is active in the field of banking, insurance and asset management, employing 100,000 people worldwide in 65 countries. In India, ING has assets of Euro1 billion, and has a presence in insurance, mutual fund, wealth management, and investment banking, corporate finance and other financial products and services to corporates and financial institutions¹⁴.

6.0.3 Global Sullivan Principles

www.globalsullivanprinciples.org

These business principles were developed by Reverend Leon Sullivan and a small group of U.S. and European companies. Procter & Gamble, General Motors, Colgate-Palmolive, and Sun Oil are the U.S. companies that have thus far endorsed them. Shell and Rio Tinto of the UK, and TATA Industries, and Paharpur Business Centre of India have also done so. Intended as an aspirational statement to which companies can align their internal policies, the Principles cover such things as equal opportunity; freedom of association; safety and health; and ethical business dealings¹⁵.

6.0.3.1 Tata Steel

www.tatasteel.com/tataorg

Tata Steel's Corporate Sustainability Report 2001-02 marks the first time that an Indian corporation has produced a Sustainability Report. It is an ambitious achievement and noteworthy in its use of the GRI Guidelines on Economic, Environmental and Social Performance. The report has also been independently assured by Pricewaterhouse Coopers which sets it again in a league apart.¹⁶

¹⁴ www.ingvysyalife.com/press_rel_7.htm, New Delhi, March 11, 2002

¹⁵ www.nautilus.org/cap/resources/globalstandards.html

¹⁶ www.globalreporting.org/guidelines/rep_country.asp

6.0.3.2 Paharpur Business Centre & Software Technology Incubator Park www.pbcnet.com

PBC is an SME in the service sector and currently offer a suite of twenty-seven quality services in Delhi in India. These services include Business Centre Facilities, Software Technology Incubator Parks with Plug and Play facilities, Travel Management, Rent-a-Cab, Housekeeping, Catering, Restaurant, Security, Horticulture, Accounting, Office Services and Office Supplies, Property Management, Indoor Air Quality Consulting, Communication Services, Internet, Cable & Internet Telephony, Legal Research, and other services.

PBC, a privately managed firm, began by first getting its systems, processes and procedures documented leading to its certification for ISO 9002:1994 in 1995 leading to re-certification as ISO 9001:2000 in 2002. They have taken a number of environment related initiatives and formalized with their certification for ISO 14001:1996 since 1998. Their social conscience got them SA 8000: 2001 certification in 2002. Coming up is the OHSAS 18001 certification by next year.

6.0.4 Aptech www.aptech-worldwide.com

IT training major Aptech has also been focusing on literacy initiatives as a part of its CSR initiatives. Apart from contributing to associations involved in humanitarian causes, the company also comes up with special low-priced IT courses. 'My Vidya' (My Education) is a basic computer literacy course priced at only Rs 450 (US\$9.40).

'Project Saraswati' is yet another endeavour towards complete IT literacy to underprivileged students. It has teamed up with leading NGOs in this programme. Some of the other efforts include - donation of a computer lab in a village near Pune; support to NGO Pratham's 'balwadis'; computer literacy projects with the Rotary International, etc. In the future, the company plans to take Project Saraswati to the global level. It has already initiated literacy programmes for underprivileged women in Bangladesh and is now extending the same to Nigeria.

At Aptech it is the Strategic Business Council team that decides the resource allocation, which is done in sync with the business strategy of the organisation.

6.0.5 Ford India www.india-ford.com

The Corporate Assessment Report is an examination of the challenges faced by Ford India. It offers a comprehensive assessment of the company's performance on a wide range of social, economic and business issues. It highlights opportunities for action on the important issues of customer satisfaction, local community participation, employee satisfaction and environmental protection. It also reflects Ford India's successes, areas of concern and opportunities for measurable improvement.

Ford Motor Company issued its first Global Corporate Citizenship Report in the year 2000 and established new ethical standards for corporate reporting on social and environmental activities. Ford India's Corporate Assessment Report follows the same principles. It is the first country-specific assessment by a Ford affiliate¹⁷.

¹⁷ www.socialfunds.com/news/release.cgi?sfArticleId=1069

6.0.6 BG Group

www.bg-group.com

BG India has been active in India for over ten years during which the company has supported several community development initiatives.

To strengthen this objective further and provide a guiding direction, a framework on future community initiatives was developed based on business links, government guidelines and community needs. Based on this, support to a primary education programme, with a wide impact and direct community benefits have been initiated in areas of the company's operations.

The programme has a two-stage format - a short-term pilot project in New Delhi and Mumbai to ascertain impact followed by a larger sustainable project in Mumbai, now under way. The programme involves bringing children from disenfranchised areas, currently outside the school system, 'into school and learning' towards the objective of achieving 'Universalisation of Education'¹⁸.

7.0 CORPORATE GOVERNANCE INITIATIVES

7.1 Compelling Reasons For Reforms

India's financial markets were rocked by two huge stock market scams in 1992 and 2001. In the context of the 2001 scam, it was admitted, perhaps for the first time, that the causes were systemic and not conjectural. A recent study by the Reserve Bank of India (RBI) on "Stock returns and volatility in India" says that empirical relationships suggest investors who tend to optimise returns in the short-run dominate the equity market in India¹⁹. As a result, they not only add avoidable volatility to the stock market and increase the amplitudes of the BSE Sensex, but also give rise to alternating short phases of bull runs and bear hugs.

The gradual induction of the Indian economy into the larger global economy has led to increased volatility of all economic indicators, including corporate profits. Consequently, one finds corporate incomes rising from sources other than primary lines of business, such as returns on investments in real estates, commodities, and a host of equity options, gilt funds, bonds, among others.

7.1.1 A 2001 study on corporate governance and economic reforms in India indicate the following micro-level findings²⁰:

- High negative impact of share buy-backs on CG
- Issue of non-voting shares have least negative impact on CG
- No significant demonstration effect of MNCs in India on Indian Companies
- SEBI guidelines/policies:
 - Guidelines for Disclosure Norms and Investment Protection are least effective
 - Prohibition of Investor Trading Regulations of Mutual Funds Most Effective
 - Substantial Acquisition of shares & Take-over Regulations a bit lax

¹⁸ www.bg-group.com/socenv/cs_comm_sci.htm

¹⁹ The Hindu, Thursday, March 22, 2001

²⁰ Ref: Corporate Governance, Economic Reform and Development: The Case of India, October 1998 - March 2001, Darryl Reed, York University and S.K. Chakraborty, Indian Institute of Management, Calcutta

The authors provide the following policy recommendations:

- Overall increased stringency in the application of corporate law
- Significant investment in protection and education of small investors
- Restructuring of the existing system of institutional investing
- Development of feasible and enforceable requirements of accountability and transparency
- Systematic consultation with civil society groups that are engaged in the assessment and evaluation of corporate behaviour
- Support business and civil society initiatives to promote more responsible/ethical corporate culture, in line with local values

7.1.2

A recent study²¹ conducted in the year 2001 across global emerging markets finds large companies with good corporate governance yield better bottom-lines. Entitled "Saints and Sinners - Who's Got Religion?," the report issued by CLSA (Credit Lyonnais Securities Asia) Emerging Markets analyses survey results of 495 companies in 25 emerging markets around the world.

In examining the 100 largest companies in emerging markets, researchers found a strong correlation between corporate governance and financial performance ratios. For example, the average ROCE (return on capital employed) for the largest 100 firms was 23.5 percent for fiscal year 2000. Companies that were ranked in the top quarter of corporate governance, however, yielded an average ROCE of 33.8 percent. Firms in the bottom half of the corporate governance rankings had an average ROCE of only 16 percent.

Of the 100 largest companies, firms that garnered the top five scores for corporate governance were HSBC (Hong Kong), Infosys (India), Singapore Airlines (Singapore), Li & Fung (Hong Kong) and Richemont (South Africa). The lowest five scores of the largest firms were Lukoil (Russia), TPSA (Poland), Isbank (Turkey), Tenaga (Malaysia) and PCCW (Hong Kong).

7.2 Corporate Governance Reforms

In India, the central and state governments have over the years taken action on legislative and regulatory reform to promote better corporate governance. As in the majority of other countries, however, shareholder activism is largely an under-developed force in India. For shareholders to gain greater influence in the management of their funds, investor education, better organisation of investor groups, and alliances with professional bodies, business organisations and NGOs will be needed.

The Indian Government is now talking about more stringent regulations for compliance with corporate governance norms. The greater challenge is how to ensure that those who manage corporations actually follow these rules. To put this in context, in the USA it was not absence of rules but a lax and wilful culture of non-compliance in some sectors that led to the massive corporate scandals of recent times. The issue, therefore, is how to ensure honesty and integrity in both corporates and their watchdogs²².

²¹ www.sri-adviser.com/article.mpl?sfArticleId=592

²² Corporate governance ratings can curb frauds, Business Line, MUMBAI, July 11 2003

One positive development in the Indian context is that the Indian rating agency, ICRA (Investment Information and Credit Rating Agency), has now started offering corporate governance ratings (CGR) to listed companies (www.icraindia.com). According to ICRA, its CGR is based on core principles - fairness, transparency, accountability and responsibility - of corporate governance practices laid down by the business sector advisory group of OECD.

While evaluating an organisation on the CGR scale, ICRA considers whether the codes and guidelines have been followed just for statutory compliance or whether the organisation has implemented the concept of corporate governance in spirit as well²³.

The Indian Government has recently passed the Companies (Amendment) Bill 2003, which promotes transparency in corporate affairs and better corporate governance. In particular, the Bill seeks to define auditor-company relationship and prescribe stiffer penalties for non-compliance. Further, it also provides for the statutory auditor-company relationship to further strengthen the professional nature of this interface, and measures required to ensure that the management and companies actually present "true and fair" statement of the financial affairs of companies. The Bill defines the role of independent directors, and how their independence and effectiveness can be assured.

The Indian Government, and various regulatory bodies such as the Securities and Exchange Board of India (SEBI) and Insurance Regulatory and Development Authority (IRDA), realise that small investors form an integral part of any economy and regulatory bodies must endeavour to ensure that interests of small investors are protected. Over the last decade, SEBI has taken important steps to improve the efficiency and transparency of the capital market through developmental and regulatory measures for investor protection. The objective is to move towards qualitative improvement and transparency in disclosure standards and better trading practices in stock exchanges.

Investor education is as critical as industry regulation. In most cases, an investor does not have the ability to understand and interpret the available information. Investors rely on information provided by brokers that is likely to be biased to favour immediate returns. Herein lies the challenge. SEBI and IRDA have upped their efforts in investor education. The Indian Government set up the Investor Education & Protection Fund in October 2001 with a view to enhancing investor education. Institutions such as the India Invest Economic Foundation, Association of Mutual Funds in India, USAID, stock exchanges such as the Bombay Stock Exchange, CRISIL, are also active in the field of investor education.

Despite various efforts by SEBI, stock exchanges and increasing requirements of corporate governance, a lot admittedly remains to be done to protect the interest of small investors. Regrettably, frauds and scams are a part of any system and cannot be entirely eliminated. Constant vigilance is required, in particular by the regulatory authorities enforcing their own rules and raising investor awareness as an additional force to be reckoned with.

²³ ICRA, India: www.icraindia.com

8.0 MICRO-FINANCE

The micro-finance pioneer, Micro-Credit Ratings International Limited (M-CRIL), which introduced MFI (Micro-finance Institution) rating services in India in 1988, has analysed the performance of 69 MFIs to provide a broad picture of micro-finance in the country.

M-CRIL's analysis reveals that microfinance in India is characterised by a small number of large MFIs that are relatively strong, and a large number of small and weak organisations. Collectively these MFIs manage to reach some 1.4 million families. The micro finance sector now covers over 0.7 million self help groups (SHGs), which enjoy bank credit of over Rs 2000 crore. MFIs in India have brought the poor, especially poor women, into the formal financial system and enabled them to access credit and fight poverty.

While MFIs are increasingly aware of the need to obtain resources from members, donor funds are still the pre-eminent source of financing and MFIs still prefer to obtain resources from development loan funds on 'soft' terms. Savings services have much potential for improvement and Grameen-type MFIs appear to be the best in portfolio quality. IBPs²⁴ fare better in portfolio management and come closest to achieving full operational self-sufficiency. While Indian MFI operating efficiency compares well with international best practice norms, the portfolio yields remain very low.

Overall, while positive trends are discernible in terms of sustainability and growth, a number of critical institutional and systemic issues in MFIs are holding the sector back from attaining its true potential in a country such as India. These include:

- unprofessional or undertrained staff;
- overlarge scale of operations and geographical spread;
- lack of basic management information systems and poor financial accounting systems; and
- the over welfare orientation of most MFI CEOs.

To their credit, however, it must be noted that the proliferation of MFIs in the country mark arguably the first time in the history of Indian development, that a serious effort is being made to provide accessible financial services in a systematic fashion to low-income families. Largely to this, a new sub-economy of financial intermediation is beginning to emerge. According to Sanjay Sinha, Managing Director of M-CRIL, the concerns outlined above would, in the long run, be seen as no more than the growing pains of a new economy²⁵.

The Reserve Bank of India (RBI) is concerned about the uneven growth of MFIs across India and the diverse rates of interest being charged of their members. It suggests identifying policy measures relating to the micro finance industry, in order to further growth and development of MFIs.

²⁴ Individual Banking model (also referred to here as IBP) entails the provision by MFIs of financial services to individual clients, though they may sometimes be organised into joint liability groups, cooperatives or even self-help groups.

²⁵ IIMB Management Review, Financial Services for Low Income Families: An Appraisal, Volume 15, Number 2; Article by Sanjay Sinha; June 2003.

9.0 ASSESSMENT OF THE FUTURE MARKET FOR SRI

D drivers for SRI in India

- Some early domestic SRI funds already present in the market.
- Mutual fund industry and retail investment becoming increasingly well established and sophisticated. Vast consumer class could be strong supporters of SRI in the future.
- Public is showing increasing awareness and interest in fund products as opposed to traditional bank accounts.
- Long traditions of environmental and social awareness and activism in the wider community.
- Vibrant civil society and civil institutions with a number of NGO's increasingly focused on issues such as corporate governance and CSR.
- Centre for Social Markets (CSM) is actively promoting SRI and has organised the first conference on SRI in India, jointly with ASrIA.
- Development and private equity funds are increasingly focused on managing sustainable investment.
- Government recognizes importance of corporate governance, including the protection of small shareholders.
- Corporates reporting and adoption of environmental standards rapidly improving, with some shining stars. CSR has firmly arrived in India.

Conclusion

- imagination is needed to identify key potential domestic markets and design appropriate financial products;
- awareness-raising around SRI issues is crucial to create a receptive local culture on both the business benefits AND the social and environmental gains from an SRI approach to investment;
- a credible corporate governance regime must be embedded in India, and sincerely taken-up by domestic corporates, to gain confidence from international investors;
- education, leadership and mobilisation by key financial institutions, corporates and civil society actors is important to promote SRI in India;
- supportive economic reforms, and public policy regimes, that emphasise core SRI principles of sustainable development, equity and profitability must be adopted.

SRI is an investment approach that integrates social and environmental considerations into the investment process. For this reason, it is also called 'triple bottom line' investing. This means that social, environmental and financial factors are given comparable weighting in reaching an investment decision.

SRI, as is commonly understood in North America, Europe and East Asia, is still relatively unknown and not well understood in India. While SRI volumes and values have increased globally, the Indian financial markets have not been proactive in attempting to introduce it to India or make it available to domestic investors.

However, the experience of early SRI movers such as JM Asset Management, show that the Indian market is not impenetrable, or growth impossible. A full assessment of the situation must recognise the many untapped assets and positive developments in the country in recent times.

Two of India's key assets are a vibrant civil society and free press that together can help create domestic demand for investment that serves the *triple bottom line* - people, planet and profits. Financial innovations in the past such as micro-credit are not new to India - indeed many forms are indigenous in origin and successfully exported to other parts of the world. One can conclude that the experience of MFIs in India reveals that where the proposed solution meets a pre-existing need, successful take-up is possible.

Another factor is the lure of the Indian market. India's vast consumer class is notoriously price conscious, but there is no reason to think that SRI cannot find favour in a country where some shoppers are believed to include green and ethical criteria into their purchasing and investment decisions. The examples of consumer mobilisation noted in the earlier section are indicative of the potential for more targeted consumer action.

Further research needs to be undertaken on contemporary consumer attitudes, but there is little doubt that attitudes are now more receptive to triple bottom line considerations. A greater challenge will be how to ensure that the vast unorganised sector in India can benefit from the introduction of SRI principles in financial markets and products.

If the Indian financial sector has been less than proactive with regard to SRI, Indian business and industry are perceptibly responding to the CSR agenda. Factors such as increasing participation in international trade, exposure to better practice, and pressure from Western contractors, have all helped raise domestic standards in the social and environmental fields. The successful take-up of ISO certification on quality and environment standards further demonstrates that many Indian firms - large and small - value the 'seal of approval' this gives them in competitive foreign, and increasingly domestic, markets. One can now speak of rising norms in several domestic industries.

India's leading industry associations now routinely hold events on CSR, corporate citizenship and corporate governance. On the corporate governance (CG) side, a handful of business leaders are now pushing the government to speed up its process of CG and necessary amendments in the Companies Act. They have successfully set CG benchmarks for the rest of Indian industry to follow.

The Government is also taking account of the changes in public and private expectations of business. In the 10th Five-Year Plan (2002-07), prepared by the Planning Commission, the Government of India calls for transforming traditional economic development patterns from ones that emphasizes quantity into ones that emphasize quality of development in order to establish a market-driven, energy - and resource - efficient economy.

A cursory reading of the above developments could suggest that indeed the conditions could be ripening for the introduction of SRI into the Indian market. It must be noted, however, that the nature and pattern of SRI progress will necessarily vary in India as it has from country to country. But existing global experiences can provide valuable insights and must be shared.

10.0 RESEARCH PARTNER

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The Centre for Social Markets (CSM) is a non-profit organization dedicated to making markets work for the **triple bottom line** - people, planet and profit. Through our offices in India and the United Kingdom, and an international network of partners and associates, CSM promotes responsible entrepreneurship, ethics and accountability worldwide. We are a values-based organisation committed to sustainable development and human rights.

CSM's work is divided into **five main work streams** focussing on business, investors, workers, consumers and governance respectively. Our primary **geographical focus** is on developing and transition countries, and our **key constituencies** are ethnic minority communities in industrialised countries, and domestic industry and stakeholders in developing countries.

Our primary activities include the following:

Education & Training (Conferences, workshops, bespoke seminars & training courses);

Consultancy Services;

Programmes (local, regional & international);

Policy Engagement & Advocacy;

Portal & Resource Centre on corporate responsibility in developing countries;

On-line Services: Newsletter 'Social Markets', regional e-list serves, e.g. *CSR Asia*;

Research & Publications: Books, reports & discussion papers.



11.0 GLOSSARY

| | |
|-----------------|--|
| ADB | Asian Development Bank |
| BCF | Business and Community Foundation |
| CCR | Corporate Community Relations |
| CG | Corporate Governance |
| CGR | Corporate Governance Ratings |
| CII | Confederation of Indian Industry |
| CRISIL | Credit Rating Information Services of India Limited |
| Crore | Rs 10 million |
| CSE | Centre for Science and the Environment |
| CSM | Centre for Social Markets |
| CSR | Corporate Social Responsibility |
| CUTS | Consumer Unity and Trust Society |
| DFID | Department For International Development (UK) |
| ENVIS | Environmental Information System |
| FDCG | Financial Deepening Challenge Fund |
| FICCI | Federation of Indian Chambers of Commerce and Industry |
| FMCG | Fast Moving Consumer Goods |
| GEF | Global Environment Fund |
| GIC | General Insurance Company |
| ICRA | Investment information and Credit Rating Agency |
| ICT | Information and Communication Technology |
| IFC | International Finance Corporation |
| IRDA | Insurance Regulatory and Development Authority |
| ISO14000 | International Organisation for Standardisation - Environmental Management |
| ISO 9000 | International Organisation for Standardisation - Quality Management |
| Lakh | Rs 100,000 |
| LIC | Life Insurance Corporation of India |
| M-CRIL | Micro-Credit Ratings International Limited |
| MFI | Micro-Finance Institution |
| MNC | Multi National Corporations |
| NGO | Non Governmental Organisation |
| OECD | Organisation for Economic Co-operation and Development |
| PIC | Partners In Change |
| RBI | Reserve Bank of India |
| ROCE | Return On Capital Employed |
| SARB | South Asian Alliance for Responsible Business |
| SEBI | Securities Exchange Board of India |
| SHG | Self Help Group |
| SME | Small and Medium sized Enterprises |
| UTI | Unit Trust in India |

ASrIA, Association for the Sustainable and Responsible Investment in Asia www.asria.org

ASrIA is a not-for-profit membership association dedicated to promoting sustainable and responsible investment (SRI) practice in Asia. ASrIA has over 100 members including investment institutions managing over US\$2 trillion in assets. In order to raise awareness about SRI, ASrIA has run conferences, seminars and workshops, and published wide-ranging research on SRI issues. ASrIA has also created a network of people and organizations committed to developing SRI in Asia. ASrIA's website, www.asria.org, is the primary resource for SRI in Asia, already attracting over 1,800 page views per day and 5,000 subscribers to the regular e-bulletin.

What is SRI?

Sustainable and Responsible Investment (SRI), also known as Socially Responsible Investment, is investment which allows investors to take into account wider concerns, such as social justice, economic development, peace or a healthy environment, as well as conventional financial considerations.

The most successful SRI funds provide investors with dual returns:

- Financial returns that compare well to, and often exceeding, the returns of conventional investments
- Social and environmental rewards that go beyond the direct financial return to the investor

SRI is therefore a positive economic choice about the way we live and the world we live in.