

Outcome Paper



“Investor Roundtable on “Building a view on a common framework for Environmental and Social Disclosure”

Exploring the business case for investors and how will it impact flow of capital

Roundtable convener:
cKinetics

In association with:
GIZ

Supported by:
Rockefeller Foundation

Large investors look for E&S related information to manage risk in their portfolio; smaller investors look for E&S information to build/measure market share and growth in their portfolio investee companies.

1. Executive Summary

The Investor based roundtable on “Building a view on a common framework for Environmental and Social Disclosure” was convened by cKinetics in association with GIZ and supported by the Rockefeller Foundation as a part of an ongoing study to determine the nature of investor interest in standardized E&S disclosure in India.

1.1. Background to the Roundtable

After conducting over 80 investor interviews, research has found that the timing is opportune for investors to drive the adoption of a common framework for E&S disclosure. In this background, this roundtable was convened with the following objectives

- Ascertain common needs of investors with respect to E&S data
- Build a business case for standardization of E&S disclosure: for investors and their portfolio.
- Identify challenges to drive the adoption of a common standard
- Determine the role of policy and present status of the NVG-SEE progress and the interplay between policies and upcoming initiatives of global standards (GRI, IRIS, etc)

1.2. Outcomes of the Roundtable

The discussions were focused on identifying investor needs and tying them into the initiatives of the different stakeholders.

Demonstrating business gains resulting from for E&S Disclosure for investors and portfolio companies

Investors present shared case studies in which disclosure on Environmental and Social issues by (potential) investees resulted in financial or operational benefits for them. Investor drivers for disclosure would be summarized into:

| Reasons and direct gains for investors by deploying E&S: | How investors have seen E&S generate business gains in their investments: |
|--|---|
| 1. Investor reputation | 1. Better regulatory compliance |
| 2. Manage risk | 2. Helps investees tap new product and new industries |
| 3. Mandate from shareholders/ retail investors/LP's | 3. Feedstock reliability |
| 4. Signatory to global investor initiative | 4. Helps investee save resources/ cost |
| 5. Investor's philosophy | 5. Helps investee company attract capital |

A key difference between small and large investors is that while larger investors (investment > \$20 m) look for E&S related information to manage risk in their portfolio; the smaller investors (investment < \$10m) are looking for E&S information to build/measure market share and growth of their investee company.

The top 2 areas under which investors want standard E&S information:

1. Ethics, Transparency and Accountability, and
2. Environmentally Sustainable business practices/processes

Areas to develop further:

- Some investors present in the room agreed that documenting case studies would serve as a tool to sensitize portfolio companies, potential investees, and the larger investor ecosystem on the benefits.
- Policy specialists in the room outlined the benefit of having case studies to engage a larger pool of investors and also other stakeholders in the ecosystem

Investors have a need for standardization of reporting around 'Compliance Disclosure' and 'Environmentally Sustainable Business Practices'

During the roundtable, investors were asked to identify E&S elements where standardization of information would be most relevant to them based on materiality.

The areas with decreasing order of priority were:

- a. Ethics, transparency and accountability
- b. Environmentally sustainable business practices / processes
- c. Employee well being
- d. Sustainability of products & services being offered
- e. Inclusive and equitable growth for the community
- f. Adherence to human rights

After this potential common indicators/ were discussed on areas (a) and (b) listed above. The few standard indicators that emerged were:

Ethics, transparency and Accountability

1. Number of Independent members of the organization's Board of Directors or governing body, as of the end of the reporting period.
2. Indicate whether the organization has a written policy to monitor and disclose any potential conflicts of interest between the company, board members, owners, or material investors.
3. Indicate whether the organization has a written code of ethics that has been communicated to employees.
4. Indicate whether the organization has been found to be out of compliance with any local labor, tax, or environmental regulations during the reporting period.

Environmentally sustainable business practices / processes

1. Total water consumed and the percentage of water that is recycled and reused
2. Components of the organization's environmental management system.
3. Statement on quantum of emissions of greenhouse gases and efforts made to reduce the same.
4. Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organization's discharges of water and runoff.
5. Habitats protected or restored

Areas to develop further:

- To validate the above areas of Standardization through wider investor survey and consultations.

Areas to develop from the roundtable

1. Validate roundtable findings through consultation with wider investor group
 2. Document case studies
 3. Provide investor survey input to policy developers; and explore formation of an expert group
 4. Explore creation of investor expert group
- Need for a guidance document

Need for a platform for engagement between Indian policy makers and the investor community

The roundtable panelists agreed that the process of defining communication on E&S disclosure needs to be an ongoing one. Thus, there is a need for a platform for mutual engagement between Indian policy makers and the investor community, which can serve as the channel for providing inputs in to the framework being developed in India; as also coordinate with the global standards bodies.

Areas to develop further:

- To provide investor survey input to policy developers
- Explore interest of both policy makers and investor to convene an Expert Group that would provide investor input into the ongoing policies and framework development

Dialogue on applying existing standards and leveraging existing institutions

The existence of different global, local and sectoral standards, create duplicity in efforts of business and investors, which are looking to realize all the benefits of a common framework for reporting and disclosure. Thus there is a definite need to provide the market with guidance to adopting a reporting standard, which is harmonized with other standards and institutions.

Areas to develop further:

- Need for a guidance document that investors can propagate in their portfolio companies that allows for alignment with the different standards and reporting requirements.

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2. Background to the Roundtable

In July 2011 cKinetics, with support of the Rockefeller Foundation commenced research on **“Identifying policy interventions to drive adoption of formal social and environmental reporting which in turn can catalyze demand as well as supply for impact investment capital”**.

More than 80 different investors and other stakeholders were interviewed to understand their needs and challenges with respect to non - financial disclosure in India and the research¹, leading up to the roundtable lead to the following conclusions:

2.1. The Indian policy environment to drive disclosure and responsible business action is progressive

cKinetics mapped 20 global initiatives, both state and non-state driven, against each other on the impact they create. This included National Voluntary Guidelines for Social, Environmental and Economic Responsibilities of Business (NVG-SEE) announced by the Ministry of Corporate Affairs of India in mid 2011, which solicits disclosure on the apply-or-explain principle from all businesses in India. **This analysis concluded the India’s NVG-SEE is in the progressive zone compared to most global policies.**

2.2. Investors and increasingly interested in non-financial information

The drivers for investors to integrate E&S disclosure in their own operations and in those of portfolio companies were identified and mapped to different investor groups. It was found that “Finance+ Investors²” (Global and Indian Development Financial Institutions, Global E&S funds investing in India, E&S seeking private equity funds, and Impact Investors), benefitted most from E&S disclosure.

2.3. Although the timing is opportune for investors to drive a common framework for non-financial disclosure, a conundrum exists

As Finance+ Investors in India have similar interest in their need and use of E&S information and Indian Government and global initiatives are looking to promote reporting through progressive initiatives, the timing is opportune for investors to converge and drive the adoption of a common framework for reporting.

However a conundrum exists: Standardized disclosure begins to have value for investors only if there is a critical mass of users (businesses). But for critical mass to happen, policy makers and investors need to align efforts and create desired benefits for businesses to disclose (i.e. greater investment and capital, compliance)

At the same time GIZ has also been working on issues related to the adoption Conundrum through its Indo-German CSR Initiative and is also building a point of view on a soon to be launched program to promote Responsible Enterprise Finance.

In order to build a view on answers to addressing the Conundrum listed above, the workshop on May 18th 2012 was organized.

¹ www.ckinetics.com/crackingtheconundrum

3. Discussion Summary

The day's discussions consisted of 3 sessions, providing the following overview:

1. **Context on existing and upcoming initiatives for E&S disclosure**
 - a. Indian policy makers are looking to promote responsible business action
 - b. Global Standards are striving for greater adoption from Indian businesses
2. **Outlook of different investors on E&S information needs and disclosure**
 - a. There are demonstrated business gains resulting from for E&S Disclosure
 - b. A common framework for E&S disclosure will benefit investors
 - c. Common elements in investor needs can feed into a common disclosure framework
3. **Next steps and recommendations on how can a common framework of E&S disclosure be adopted?**
 - a. Need to build an ongoing platform
 - b. Identification of common elements in investor needs and the indicators that meet them
 - c. Documentation of demonstrated business gains resulting from for E&S Disclosure

3.1. Context on existing and upcoming initiatives for E&S disclosure

Indian policy makers are looking to promote responsible business action

1. **The NVG's** are formulated such that they are applicable to all businesses; small or large and have been designed to align with the Indian perspective and promote responsible business actions.
2. **The Disclosures Framework for the NVG** is currently under consideration to provide a standardized framework that can be adopted. The draft framework is currently with the Ministry of Corporate Affairs, pending a decision on how to proceed.
 - a. **Critical Performance Parameters:** The disclosure framework seeks reporting on principle wise performance metrics, which comprise of simple key metrics which allow capturing of the key issues.
 - b. **Comply or Explain:** To lend flexibility to the businesses, according to their preparedness, the frameworks works on a Comply or Explain principle.
 - c. **Aggregated Data:** Companies can report as a single entity or a group and explain the level of integration of forward backward partners. This information will serve to aid research and policy formulation.
3. **MCA 21:** The business responsibility reports of businesses will be consolidated under the MCA 21 to enable dissemination of information as well as ease of compilation. The government does not see its role in policing but simply in facilitating access to information; and letting stakeholders determine a course of action along with the businesses.

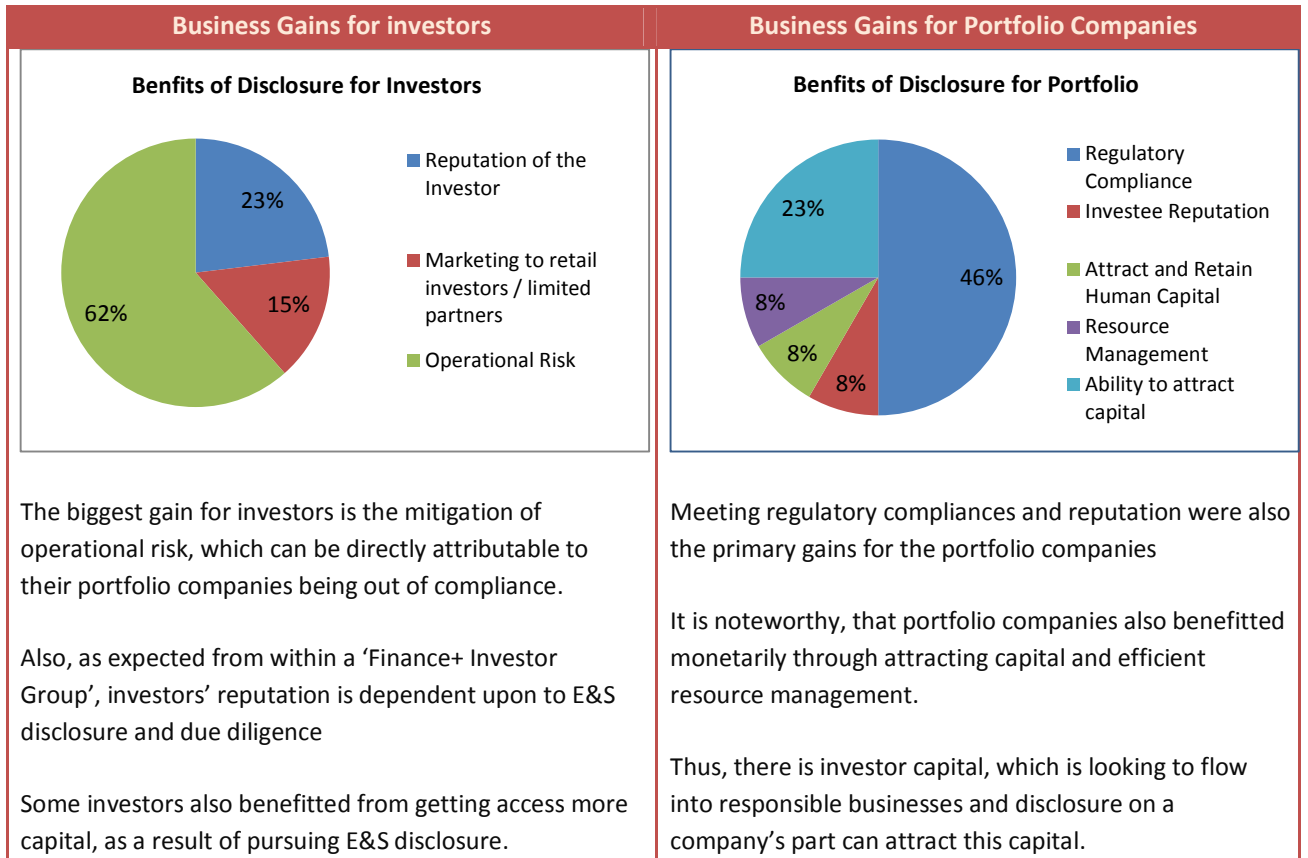
Global Standards are striving for greater adoption from Indian businesses

1. GRI Focal Point India is looking to drive integrated reporting on ESG issues and also promote uptake by the Financial Sector.
2. The GRI is often referred to as the "Gold Standard" in reporting. The framework includes an 'exhaustive' list of metrics' and businesses report per the materiality of different metrics on their operation.
3. There is a need to harmonize standards to avoid duplicity in effort and ambiguity in the data available.
4. The Global Impact Investing Network represents has developed a reporting language for impact measurement; IRIS, and are looking to achieve greater uptake in India

3.2. . Outlook of different investors on E&S information needs and disclosure

There are demonstrated business gains resulting from for E&S Disclosure

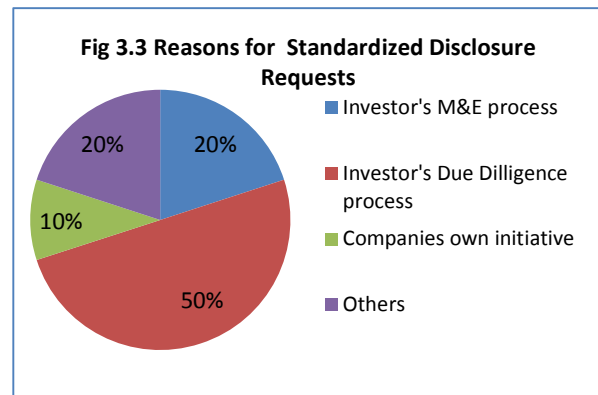
The attendees shared where E&S disclosure lead to business gain for them and their portfolio companies. These are mapped to the business / operational benefits identified in the Landscape Paper. (Fig 3.1 and 3.2)



A common framework for E&S disclosure would enable the benefits outlined above

Almost investors present in the room benefited from E&S disclosure, during their investment making process. However, it is noteworthy that disclosure in a systematic manner primarily resulted from the investors' own due diligence and monitoring and evaluation processes; and not from standardized disclosure processes companies may have in place (possibly because companies are not mature as yet). (Fig 3.3).

Consequently, an investor driven common framework for E&S disclosure will allow investors to access information which is material to them, periodically and reduce both the costs of information collection as well as risk associated with it.



Common elements in investor needs can feed into a common disclosure framework

Discussions during the roundtable confirmed that investors, both those investing in large businesses and those investing in small businesses had commonalities in information requirements, which can be met via a common framework for disclosure and reporting. The indicators, investors consider important were also mapped.

During the roundtable, investors were asked to identify E&S elements where standardization of information would be most relevant to them based on materiality. Fig 3.4 summarizes the elements (which were derived from the NVG-SEE), which were most relevant to them.

Fig. 3.4 Common Elements in Investor Needs



The top two reasons i.e. 'Ethics, Transparency and Accountability' and 'Environmentally Sustainable Business Practices and processes' were delved into deeper. The reasons are summarized in Table 3.1.

Table 3.1 – Summary of top two elements of investors’ E&S information needs

| Elements for standardization | What Investors in Large Businesses said | What Investors in Small Businesses said |
|--|--|--|
| Ethics, Transparency and Accountability | <p>This element is a pre-requisite for any large investment; and is presently used in a binary manner in investment decision making. Newer research has shown that this element can also be a ‘relative’ parameter and be used to gauge management quality as well as gaps. Since most investors have a direct positive impact on this element, knowing areas of gaps can allow investors to plan their interventions. Such gap analysis is better done when standardized reporting exists that allows for comparison in a peer group.</p> | <p>As small businesses cannot provide detailed disclosure and compliance of the company with the laws of the land is still a grey area, this is the most important element for investors in small businesses.</p> <p>Moreover Impact investors use the information as an indicator to the ‘potential of impact’ of a business.</p> |
| Environmentally Sustainable Business Practices and processes | <p>A large organization’s interaction with its physical environment (land use, natural resource consumption and feedstock reliability, etc) and consequently its impact on the community is the largest source of risk. This is true not only for infrastructure projects but also manufacturing and some service organizations. This has historically been relegated to compliance, but investors are increasingly seeking to gauge the risk emanating from this element.</p> | <p>Small investors (such catalysts and foundations), require disclosure on environmental sustainability, in order to generate documented case studies for investment impact; business and environmental gains which can create awareness in the ecosystem and mobilize more capital.</p> |

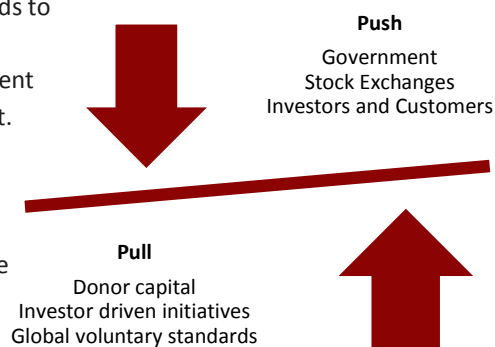
3.3. Next steps and participant expectations

“How can a common framework of E&S disclosure be adopted” given the existence of business cases for investors?

Need to build an ongoing platform

All panelists were unanimous in agreement a continuous link needs to be created between the different groups present; despite having common *end* goals, the different stakeholders are pursuing different interventions which either coerce or drive by businesses to report.

However, it is imperative that the different initiatives are tied in to each other, either to multiply reach and results or to gain from consultation and experiences. There is also a need to engage with a larger group, especially with engagement of large public sector financial services companies.



This can be achieved in the following ways, which need to be explored

1. **Creation of an investor focused special interest group**, which can drive a common E&S disclosure framework with its portfolio companies.
2. **Investor Inputs into the Disclosures Framework being developed** to provide stakeholder input into the Disclosures Framework being developed under the NVG-SEE. After the disclosures framework is approved by the MCA, the committee will hold stakeholder consultation. The investor group present here could formulate a part of the advising group, thereby ensuring that the framework being implemented is in line with their needs.

Identification of common elements in investor needs and the indicators that meet them

As detailed earlier, investors have commonalities in information requirements at both principle level and indicator level.

As a part of the study “Cracking the Conundrum”, cKinetics will conduct exhaustive research on the indicator level information needed by investors, which can be used by policy makers and global stakeholders to work with investors and accelerate adoption of disclosure in India.

Documentation of demonstrated business gains resulting from for E&S Disclosure

Businesses gains of E&S disclosure for both investors and portfolio companies can serve as a tool to “create a critical mass for reporting businesses under a common disclosure framework”. In tandem with policy led initiatives, this would provide the desired impetus to drive an accelerated action by businesses.

As a part of the study “Cracking the Conundrum”, cKinetics will:

- Document and share investor case studies, with support from the panellists, and detail the benefits as well as the way to achieve them.
- Quantify the quantum of capital, which can be made available to investors and portfolio companies, who converge behind a common framework for E&S disclosure?

Initiation of a dialogue between the different existing frameworks with intent of pursuing harmonization

While a disclosure framework is being developed under the NVG-SEE, other initiatives are also under-way in India. The existence of different global, local and sectoral standards, create duplicity in efforts of business and investors, which are looking to realize all the benefits of a common framework for reporting and disclosure. In practical near term actions, there is a need for

- How to map one framework against all the other used / accepted frameworks: whether in terms of a guidance document.
- How to go about adopting/ implementing a given framework for businesses and investors, including assurance.

Annexures

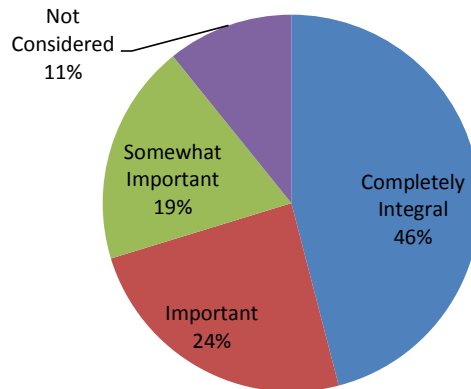
Annexure 1: List of Attendees

| Name | Organization |
|------------------------|---|
| Dr. Aditi Haldar | GRI India |
| Alok Dayal | IDFC |
| Anurdha Bhavnani | Shell Foundation |
| Ashok Emani | IDFC |
| Dr. Bhaskar Chatterjee | IICA |
| Dr. C. Prabhu | Rabo Equity |
| Digbijoy Shukla | Impact Circle - Ennovent |
| Himraj Dang | Olympus Capital |
| Katherine Miles | E&Y |
| Manoj Kumar Arora | GDC-NVG |
| Neha Kumar | GIZ |
| Pawan Mehra | cKinetics / Global Impact Investing Network |
| Sameer Singh | IFC |
| Shailesh Vikram Singh | Seed Fund |
| Shradha Kapur | cKinetics |
| Srinivasan Ka | Venture East |
| Stefanie Bauer | GIZ |
| Sunil Bahl | IL&FS |
| Dr. Sunil Sinha | Crisil |
| Tushar Pandey | Yes Bank |
| Dr. Veena Joshi | SDC |
| Vivan Sharan | G-Trade |

Annexure 2: Partial survey results

The following are the results of the survey that is in progress by cKinetics. The results depicted here, consist of both the survey administered during the roundtable as well as those provided by the extended investor community engaged in this study; and **is still being administered. The information is enclosed here for directional purposes only.**

In your organization, how integral are Environmental & Social indicators / performance data in the investment due diligence and monitoring processes?



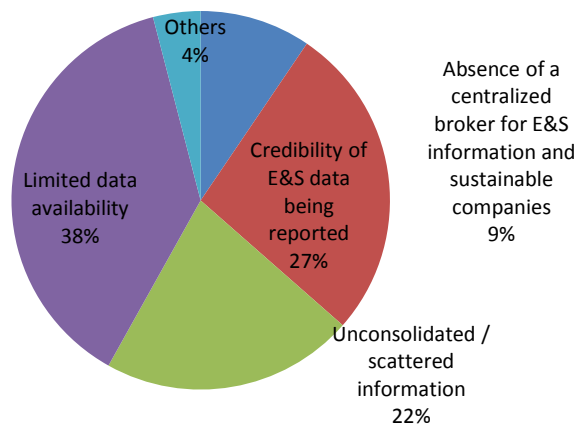
What are the top 3 most compelling reasons for your organization to integrate Environmental & Social indicators into your investment decision making?



Information on which of the following Environmental & Social parameters should be standardized from your portfolio companies? Please choose top 2 based on the financial materiality.



What, among the following, are the key challenges that you face with respect to Environmental & Social information gathering in India?



Details of Investor Types

