IMPACT OF SOCIAL RISKS ON INDIAN BUSINESSES

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India

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OXFAM INDIA
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Abbreviations

IFC	International Finance Corporation
ADB	Asian Development Bank
AIDS	Acquired Immune Deficiency Syndrome
BRR	Business Responsibility Report
CBA	Cost Benefit Analysis
CDC	Commonwealth Development Corporation
CPCB	Central Pollution Control Board
DFI	Development Finance Institution
DFID	Department for International Development
EHS	Environment, Health and Safety
EIA	Environmental Impact Assessment
EPFI	Equator Principles Financial Institutions
ESG	Environmental, Social and Governance
FMO	Netherlands Development Finance Company (Dutch development bank)
FTSE	Financial Times Stock Exchange
GHG	Green House Gas
GRI	Global Reporting Initiative
HIV	Human Immunodeficiency Virus
IDFC	Infrastructure Development Finance Company
ILO	International Labour Organization
ISO	International Organization for Standardization
MCA	Ministry of Corporate Affairs
MoEF	Ministry of Environment and Forests
MFI	Micro Finance Institutions
MNC	Multi – National Corporation
MSCI	Morgan Stanley Capital International
MSME	Micro, Small and Medium Enterprises
NGO	Non- Governmental organization
NVG	National Voluntary Guideline
SEBI	Securities and Exchange Board of India
SIA	Social Impact Assessment
SIDBI	Small Industries Development Bank of India
SPCB	State Pollution Control Board
SPS	Safeguards Principle Statement
SROI	Social Return on Investment
UK	United Kingdom
UN	United Nations
UNPRI	United Nations Principles of Responsible Investment
USD	United States Dollar

EXECUTIVE SUMMARY

This report was commissioned by Oxfam India with the objective of analysing the impact of social risks on businesses and initiate dialogue with private sector leaders on addressing these risks. The report is exploratory in nature rather than being a statistically rigorous study, and has been undertaken as pilot study focused on specific industries and stakeholder groups. This report represents a first analytical exercise to understand the corporate outlook towards social risks and their perception as to how this affects their business.

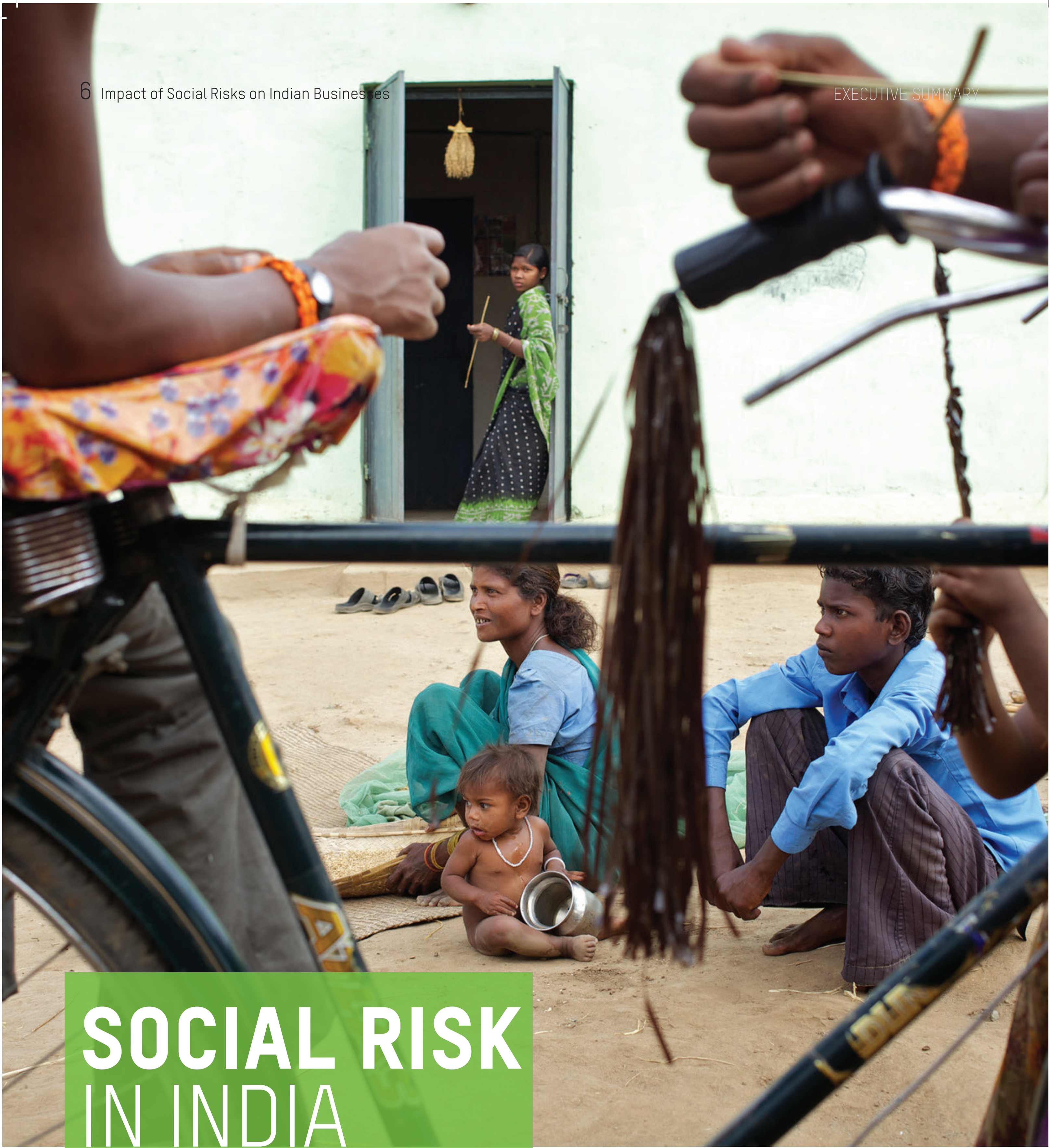
For the purpose of this research study, social risks were defined as the perceived negative impacts (or threats) on individuals, groups of individuals, communities, and societies from social changes. This could be triggered by developmental interventions and actions of external actors. This includes corporations/businesses, non-governmental organisations (NGOs), industry associations, government institutions, and regulators. This report has tried identifying the various social risks associated with and caused by businesses and other players, that may have negative social impacts on the stakeholders associated with the functions of a business i.e. its sphere of influence, thereby creating 'business risks'.

This research has been conducted through a primarily consultative process with the involvement of multiple stakeholders ranging from corporates across different sectors, industry association, bilateral donor, and civil society organizations. The stakeholder responses were gathered through a series of focused interviews and surveys. A funnelling approach was used in order to identify the top social risks, where a comprehensive list of social issues was devised on the basis of secondary research, which was further channelled down to a smaller set of issues based on the stakeholder responses. A Likert scale[1] of 1 to 5, measuring the level of importance of the identified social risks was used to understand stakeholders' perception. The stakeholder responses were analysed using a materiality/ prioritization tool, which is a 2x2 matrix measuring significance of social risks to businesses on one axis, and significance of social risks to the society on the other axis. While analyzing importance to businesses, a higher weightage was allotted to the responses of corporates than that of the civil society organizations, and while assessing the importance of these risks to the society, the responses of civil society organizations were allotted a higher weightage than that of the corporates. The following risks were found to be the most crucial risks with a significant impact on the businesses as well as society:

- Non-compliance to health and safety regulations
- Degradation of environment (contamination of land, ground water, water bodies, etc.)
- Labor Unrest (caused due to non-payment of minimum wages, safety of working conditions, collective bargaining)
- Destruction of biodiversity (especially vulnerable and protected species)
- Climate change due to increasing industry GHG emissions from the industries (thus, causing extreme weather conditions, and natural disasters)
- Violation of human rights

These social risks represent externalities which are rapidly being internalized through regulations, market dynamics and increasing stakeholder pressure. The corporate perception and attitude towards social risks and their management was further analyzed. It was found that while Indian corporates acknowledge social risks as business risks to a large extent, effective social risk management with formal processes and policies specific to social risks is still lacking. It was concluded that it is imperative for private sector leaders and civil society organizations to become key collaborators in bringing about innovation for developing new solutions. These solutions should be directed towards building the adaptive capacity of vulnerable groups in India so as to combat economic, environmental, social or governance related issues.

[1]Likert Scaling is a method of ascribing quantitative value to qualitative data, to make it amenable to statistical analysis. A numerical value is assigned to each potential choice and a mean figure for all the responses is computed at the end of the evaluation or survey. Source: http://www.businessdictionary.com/definition/Likert-scale.html, https://www.clemson.edu/centers-institutes/tourism/documents/sample-scales.pdf



SOCIAL RISK IN INDIA

2.1 INTRODUCTION

Social risks are ever-present, especially in a growing economy, and have become a prominent area of concern in today's day and age. The poor and marginalised communities (stakeholders) are typically the most vulnerable to social risks. These risks also negatively impact businesses (business risks) making them susceptible to social and political challenges and furthermore unsustainable in the long run.

The concept of social risk has been explained and defined in multiple ways. The World Bank defines social risk as "the possibility that the intervention would create, reinforce or deepen inequity and/or social conflict, or that the attitudes and actions of key stakeholders may subvert the achievement of the development objective, or that the development objective, or means to achieve it, lack ownership among key stakeholders"[2]. Another way of understanding social risks, is to view it as a measure of the difference in what an organisation acknowledges as its responsibility towards its stakeholders and environment, versus the perception of the stakeholders themselves. These stakeholders may include, shareholders, investees, consumers, suppliers, staff, labourers, community as well as cause related groups and organisations[3].

For the purpose of this report however, we have defined social risks as the perceived/real negative impacts on, and threats to individuals, groups of individuals, communities, and societies from social changes triggered by development related activities and the actions of stakeholders such as; corporations/businesses, non-governmental organisations (NGOs), industry associations, government institutions, and regulators[4]. Additionally, any changes resulting from demographic and environmental factors that may not be under the control of any actor itself will also be considered as social risks. These social risks are inclusive of and not exclusive to issues such as labour conditions, health impacts, demographic trends, environmental sustainability, political stability as well as impact on economic opportunities[5]. Such risks have resulted in an increase in poverty, inequality, dislocation of vulnerable sections of the society, loss of social and communal harmony, loss of human livelihood and life, and has even adversely affected the environment viz. destruction of renewable resources, increase in air and noise pollution, water pollution and land degradation[6].

This report identifies the various social risks associated and caused by businesses as well as those external to a business, that may have negative social impacts on the stakeholders associated to the functions of a business i.e. its **sphere of influence**[7]**,** thereby creating **'business risks'.**

The objective of the report is to bring the concept of social risk management to the forefront of the development agenda by stimulating a constructive dialogue involving corporations and civil society organisations. The document will try presenting the different types of social risks and impact/ threats posed by them, in the Indian context. It analyses these emerging risks and presents the need for a forward looking approach to social risk management, and the potential tools and methodologies available, highlighting the role that private sector has to play.

Social Risks	Impact on Sphere of Influence	Resultant Business Risks
Perceived or real threats to individuals / groups / societies triggered by external factors. These include actions of external interest groups such as businesses, NGOs, governments, regulators etc. as well as natural causes such as demographic trends, environmental changes etc.	Negative impacts of social risks on stakeholders in a business value chain; with workplace in the immediate reach, then moving outward to supply chain, the marketplace, the community, and governments.	Potential threats and / or unwanted impacts on a company's operations, reputation or profitability due to the responses on the stakeholders within the sphere of influence to the social risks.

Figure 1 Concept of Social Risk

[2] http://www.iaia.org/uploads/pdf/SIA_Guidance_Document_IAIA.pdf
[3] http://www.henriques.info/downloads/Risk%20and%20Sustainability.pdf
[4] http://www.tandfonline.com/doi/pdf/10.1080/13669877.2014.1003323
[5] http://www.daedalusadvising.com/Social_Risk_Strategic_Risk.pdf
[6] http://www.fao.org/3/a-i0490e/i0490e01j.pdf
[7] http://198.170.85.29/Ruggie-companion-report-15-May-2008.pdf

2.2 APPROACH AND METHODOLOGY

The objective of this report is to **analyse the most pertinent social risks in India and their impact on businesses with a long term objective of motivating businesses to develop appropriate measures for social risk management".**

The report development process was broadly divided into the following phases:

Phase 1: Desk Review

A detailed review and analysis of existing literature was conducted, which focus on the following elements:

- Identification of nature, scope and drivers of social risks
- Defining and categorizing vulnerable groups that are at a higher risk of socio-economic or cultural exclusion (women, smallholder farmers, farm labourers, migrant workers, consumers and future workforce)
- Identification of major business risks across sectors such as Banking, Agriculture, Textiles, Food and beverage etc.
- Risk management practices and approaches adopted by the private sector (voluntarily or driven by regulation)
- Identification of various social risk frameworks and tools used by public and private sector organizations like the World Bank, IFC, ADB, ILO etc.

The sources of data that were used for desk review are listed as follows:

- Research papers on social risks by key Indian and global research agencies
- Publications by Indian industry associations and rating agencies
- Publications by global development & aid agencies, non-profit foundations, and industry associations
- Publically available information from company websites on their risk management practices
- Globally accepted Environmental, Social and Governance (ESG) frameworks, principles and guidelines of institutional investors and development agencies

Phase 2: Primary Data Collection

This phase essentially involved data collection from the relevant respondent groups to understand their perspectives on social and business risks in India. The respondent groups selected for the primary research were a mix of Indian corporates, industry associations, bilateral donors, and civil society organizations working on a varied range of social issues. A structured questionnaire (consisting of mostly close-ended objective questions and some open-ended opinion-based questions) was designed for each of these respondent groups, keeping in mind the unique perspective of each group towards social and business risks. A Likert scale[8] of 1 to 5, measuring the level of importance of pre-identified social risks (compiled on the basis of secondary research) was used for determining the most important social risks. Furthermore, in order to check the internal consistency or reliability of these pre-identified social risks presented in the questionnaire, Chronbach's alpha test[9] was used to measure how closely related these risks are. The alpha coefficient for the items measuring importance of the social risks to society was 0.880, suggesting a relatively higher internal consistency. Similarly, the alpha coefficient for the items measuring importance of the social risks to businesses was also 0.875. A coefficient of 0.70 or higher is considered "acceptable" in most social science research situations.[10]

The industry associations and corporate respondents were selected in such a way that perspectives of a wide range of business sectors (such as manufacturing, extractive industries, agriculture & forestry, food & hospitality, etc.) towards social risk management is captured. On the other hand, the selection of civil society organization respondents was done in such a way that the perspectives of non-profit organizations working on a diverse range of social issues is captured. The investor perspective on consideration of social issues while making investment decisions was also captured through interactions with financing institutions.

Phase 3: Data Analysis and Validation by Expert Committee

Detailed interviews were conducted with the respondents in the Expert Committee, consisting of leading industry

[8]Likert Scaling is a method of ascribing quantitative value to qualitative data, to make it amenable to statistical analysis. A numerical value is assigned to each potential choice and a mean figure for all the responses is computed at the end of the evaluation or survey. Source: http://www.businessdictionary.com/definition/Likert-scale.html, https://www.clemson.edu/centers-institutes/tourism/documents/sample-scales.pdf
[9]Cronbach's alpha is a measure of internal consistency, that is, how closely related a set of items are as a group.   It is considered to be a measure of scale reliability. Source: http://www.ats.ucla.edu/stat/spss/faq/alpha.html
[10]The test was performed on IBM SPSS Statistics Version 20.

sector experts, and prominent activists from civil society organizations. Since this study is a scoping pilot in assessing the landscape of social risks and perceptions of relevant stakeholders in India, a conservative sample size of 12 respondents was considered for the research. However, since some of the respondents are industry associations and civil society coalitions, their responses are reflective of a larger set of potential respondents. The Committee consisted of civil society organizations which includes member associations of NGOs thus representing a larger sample of NGOs. The number of corporates interviewed varied across multiple industries and two industry associations were interviewed, which represent a larger gamut of their member organizations. The approach for collecting data and conducting analysis, along with the results obtained from the research study were assessed by the Expert Committee and their feedback was incorporated before finalisation of this report.

This data was analysed using materiality/ prioritization tool based on a 2x2 matrix that measures significance of social risks to businesses on one axis, and significance of social risks to the society on the other axis. While analyzing importance to businesses, a higher weightage was allotted to the responses of corporates than that of the civil society organizations, since the corporates are expected to have a comprehensive understanding of the business perspective towards social risks. At the same time, while assessing the importance of these social risks to the society, the responses of civil society organizations are allotted a higher weightage than that of the corporates, given their ground-level knowledge of the social development scenario in the country. The results of this analysis are illustrated in Section 4.

2.3 MAPPING SOCIAL RISKS IN INDIA

2.3.1 CONCEPT OF SOCIAL RISK

To understand the term 'social risk', we need to define the concept of risk. Risk is any uncertainty that individuals or a group of individuals may have about the negative outcomes of certain activities on their interests. These interests may be in the form of personal or cultural values, property etc.[11]

An individual, community or society's perception of the risks associated with an activity, determines their acceptability towards that activity (developmental, technological innovation etc.), at any given point of time. The community's perception and responses are of significant consequence to the actors implementing the activities and interventions. Acceptance of these activities, is dependent on the community's perception that their benefits will outweigh the costs/negative outcomes[12]. Conversely, the distrust in the institution or its activities' outcomes can result in potential threats to the institution itself or the viability of its activities. The new age of social media, which is witnessing exponential growth, has made it possible for individuals and other stakeholders such as customers, competitors, regulators and even employees to share information, voice grievances and raise concerns, putting businesses at potential risk[13].

> Individuals, communities, farmers etc. can oppose the mining of a nearby region due to their perception of the associated social risks such as health risks, pollution, loss of agricultural land and livelihoods. Further the lack of license to operate in such a region may result in a company unwilling to proceed with their projects fearing strikes, reputational and financial reprecussions i.e. business risks.

Box 1 Social risk as a business risk

In this context, **social risks cover a range of unwanted potential threats/ negative consequences as an outcome of decisions and activities of external actors as well as natural events and changes within a host community.**

These external actors include businesses, NGOs, regulators, government institutions as well as industry associations. These threats may be real or perceived, as identified by individuals and groups of individuals being impacted by the threats.

With respect to businesses, the stakeholders that may be impacted by the social risks fall under their 'sphere of influence'. Traditionally, businesses misdiagnose social risks as challenges by stakeholders to the business practices of companies/ organisations due to the real or perceived impacts of the business on a range of human welfare concerns resulting from their interactions with the host community.

[11]http://www.tandfonline.com/doi/pdf/10.1080/13669877.2014.1003323
[12]Guillaume, B., and S. Charron. 1999. Exploring Implicit Dimensions Underlying Risk Perceptions of Waste from Mining and Milling of Uranium Ores in France. Fontenayaux-Roses: Institute for Protection and Nuclear Safety
[13]https://www.grantthornton.com/~/media/content-page-files/advisory/pdfs/2013/ADV-social-media-survey.ashx

Sphere of Influence for Business

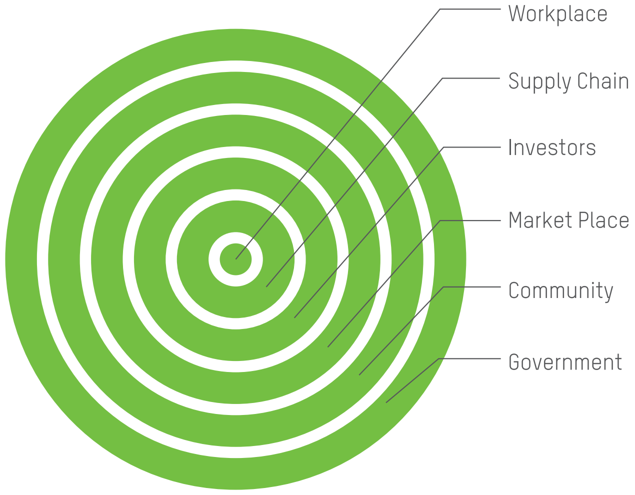


Figure 2 Sphere of Influence for businesses

However for the purpose of this report, we identify social risks as risks resulting from any institution's actions, *as all social risks (inherent in a business's activities as well as those external to a business) can have economic and non-economic consequences for a business. These consequences may include damage to brand and reputation, impact on social license to operate, relations with local authorities, communities and other stakeholders, fall in profitability and market value, operational delays, legal actions, heightened regulatory pressures, consumer boycotts, strikes and labour unrest etc.*[14] ***Definitions restricted to only a business's actions will prevent the private sector from adequately identifying, forecasting, and countering the negative consequences of social risks.*** *According to a working paper presented by Harvard University and John F. Kennedy School of Government (2006), social risks are characterised / defined by four core components*[15]*;*

- *the challenge or threat created by external actors,*
- *the stakeholder or stakeholder group potentially impacted from the sphere of influence,*
- *the resultant perception (negative) of the business by the community stakeholders*
- *the means/ subsequent impact on the company itself i.e. the business risk that occurs.*

These form a basis for our understanding of how social risks occur and impact businesses. The 'threat' incorporates challenges by all actors, however the 'sphere of influence', 'perception' and 'business risk' focus directly on businesses, as we are trying to identify the impact of these threats on businesses and what they can do in order to prevent such threats.

THREAT: These include but are not restricted to social, environmental, political or economic challenges which may result from projects or work of any external actors/ organisations. The potential threat and unwanted impact caused can vary depending on the industry, sector or location of the intervention.

SPHERE OF INFLUENCE: The sphere of influence, has been defined with respect to private sector organisations

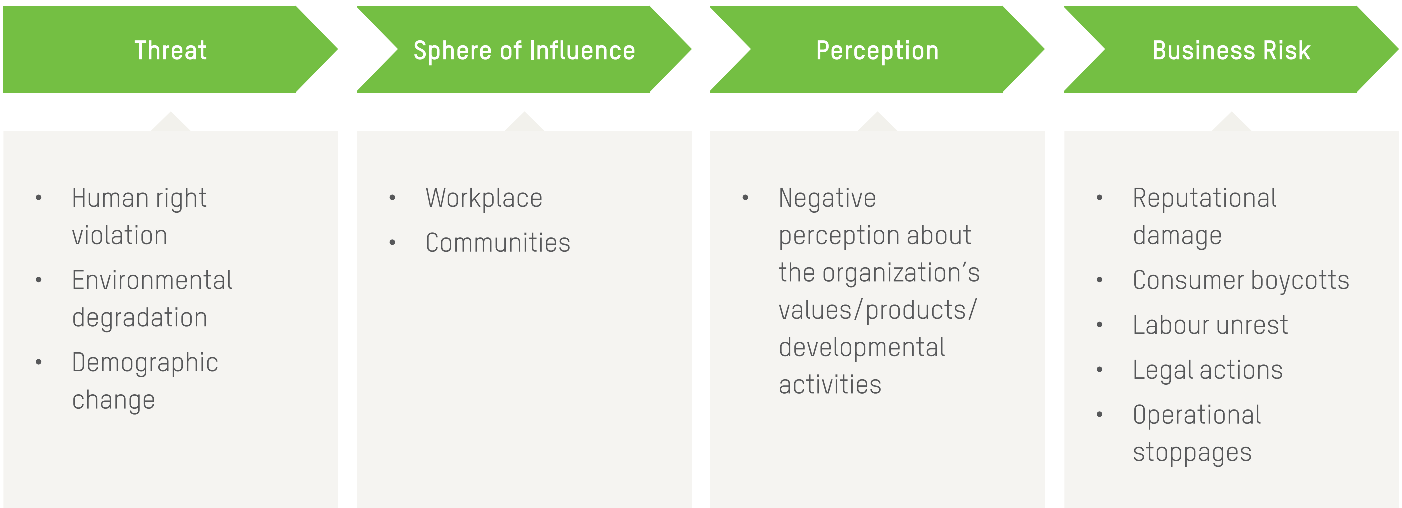


Figure 3 Linkage between the four components of social risk: An Example

Source: KPMG India analysis, based on a study conducted by Harvard University and John F. Kennedy School of Government

[14]http://www.tandfonline.com/doi/pdf/10.1080/13669877.2014.1003323
[15]http://www.daedalusadvising.com/Social_Risk_Strategic_Risk.pdf

and businesses. It refers not only to immediate and tangible stakeholders such as employees, customers, regulators, business partners or shareholder but also those influencers with which organisations share an indirect relationship. These include communities impacted by business operations, government institutions, as well as international agencies and civil society organisations working for the benefit, empowerment and rights of people.

PERCEPTION: These are perceptions of the stakeholders identified by the sphere of influence, and may be positive or negative. They may arise due to various sources of information such as news articles, company publications, word of mouth etc. However, it is the negative perceptions that can be a cause of concern for companies as they may lead to harmful sentiments towards the organisations and thereby impact their functioning.

BUSINESS RISK: The perceived impact of the 'threats' faced by the marginalized and vulnerable sections of the society, who are also key stakeholders for companies, may result in them acting against a company. These could take the form of decline in employee productivity, cost escalations, strikes, closures, unrest and demonstrations, consumer boycotts, operational disruptions or legal actions against the company and its practices, which in turn affect business continuity and performance.

From a business point of view, lack of planning and absence of preventive measures taken while designing interventions, very often exacerbates and/or creates social risk. Companies perceive these risks to be inevitable outcomes or consequences of conducting a business that can be addressed once they have occurred. It is however essential that social risks are recognised and a preventive approach is applied instead of rectifying the adverse effects after they occur[16].

Further, social risks can be looked upon as negative externalities for businesses. Externalities occur when producing or consuming a good causes an impact on third parties which are not directly related to the transaction. Externalities can either be positive or negative. Throughout history, businesses have both created benefits for society for which they have not been fully compensated (positive externalities) and have imposed costs on society for which businesses have not fully paid requisite compensation (negative externalities). Social risks to businesses arise from the negative impact they have or are likely to have on their stakeholders and society in general, and thus are a negative externality.

In the case of an extractive industries business, the positive externalities include using recycled metals in their production that reduces the cost to society of managing the disposal of these metals for which the company is not compensated. Similarly a negative externality for a production company would be the damage caused by its suppliers that discharge hazardous chemicals, affecting the health of local communities, the cost of which is not paid by the company. Thus, such risks not only need to be identified and measured but also need to be managed such that the positive externalities are maximized and the negative externalities are minimized.

2.3.2 TYPES OF SOCIAL RISKS

Social risks are increasingly emerging as an unavoidable aspect of the corporate landscape, especially since businesses contribute to this rise of social risks.

While businesses do create opportunities and benefits for people (stakeholders and nearby communities), these also lead to adverse effects. These economic losses or social costs typically arise after the developmental benefits have already been realised.

We have categorised these social risks as those **(a) inherent to a business and under its influence, and those that are (b) out of its control and created either by other influencers or natural causes,** yet are imminent and can have a wide-range of impacts on businesses.

Below we define some of the general categories of social risks, with a special focus on those relevant to India's context:

A. Social Risks Inherent to Businesses

1. Human Rights Violations

As human rights violations continue to occur across the world through the actions of various actors, it has become imperative for businesses to act responsibly and proactively towards ensuring realisation and safeguarding of human rights. This is especially important keeping in mind the complex working environments and engagements with varied stakeholder types.

[16]http://www.rlarrdc.org.in/images/Social%20Impacts%20and%20Social%20Risks.pdf

Children, women, indigenous groups and other marginalised communities are the most vulnerable to most forms of human rights abuses.

a) Indigenous rights transgressions

Indigenous populations and the marginalised are among the most impacted groups due to social risks. In India, the Scheduled Tribes, also known as the Adivasis, fall within this category as most Adivasi communities continue to be dependent primarily on natural resources and thus, are affected by conflicts related to mining, land acquisitions and other forest rights violations.

Land acquisition, especially in the context of infrastructure and mining projects most often happen without proper stakeholder engagement and in not very transparent manner which becomes a source of contention and conflict between the indigenous people and the companies, governments or official stakeholder representatives/ local self-governments such as sarpanch, block officers etc. A critical aspect determining the social risk is the failure of stakeholder engagement and to ensure that Free Prior and Informed Consent (FPIC) is obtained from these communities before any projects are approved.

A leading global mining and metal company in India faced charges of violating human rights of tribal people in Orissa during the development of a project in Niyamgiri Hills.

The project's opponents alleged it would destroy the way of life of the local tribals (due to their spiritual and cultural attachment to the Niyamgiri hills) and that work on the projects had begun without the requisite clearances. They further alleged that many people had been forcibly removed from their homes, at times violently, and that the mining has already caused extensive environmental damage and will cause more. The Supreme Court of India banned the company from mining in that area and ruled that the rights of the local communities must be taken into account in deciding whether the mining project may go ahead. All 12 tribal villages voted against the project leading to a directive of the Union Ministry of Environment & Forests in 2010 rejecting forest clearance to the mining project.

Box 2 Case Study: Negative impacts of human rights violations

b) Child Labour

In India, one in every 11 child is working[17]. Children from underprivileged and marginalized households are exposed to the risk of being forced into labour, which is a pervasive practice in many industries including agriculture, services and textiles. 80% of working children in India are found in rural areas and three out of four of these children work in agriculture or in household industries. Further, adolescents between 15 and 17 years of age doing hazardous work form 62.8% of the overall child labour population, with India having the greatest number of adolescents in hazardous work (2.4 million)[18]. Evidence indicates, child destitution and child labour is mainly a consequence of loss of income from a working adult in a family, eruption of armed conflict, persistent poverty forcing children to drop out of school etc.

c) Gender Inequality/ Unfair Treatment[19]

Girls and women constitute almost half of the population of India, in fact almost all over the globe; yet, they are deprived of access to resources, opportunities in comparison to their male counterparts and become victims of violence by virtue of being women. This is further compounded owing to multiple intersectionalities of caste, class and ethnicity.

Women, especially from rural and poor households, are vulnerable to economic and social shocks impacting their participation in society. Inequality and discrimination in terms of type of work and wages are still problems for female workers, especially in the poorer Indian states. In this regard, the latest Global Gender Gap Report 2015 ranks India 108 out of 145 countries in terms of the overall gender gap and finds that India ranks the lowest in terms of women's participation in the labour force. Another form of inequality arises from discrimination at the workplace amongst people from different caste/community/race or religion.

d) Involuntary Displacement/ Migration

Involuntary or forced displacement and/ or migration is caused not only due to violence or conflict, but also as a result of environmental and economic reasons[20]. These vary from water crisis, climate change as well as disruption of land and property resulting from development projects.

Most displacements arising from economic causes include, expansion of infrastructure such as building of roads and highways, power generation facilities or other urban

[17] International Labour Organization's World Report on Child Labour 2015 and CRY recent analysis of the Census 2011
[18] International Labour Organization's World Report on Child Labour 2015 and CRY recent analysis of the Census 2011
[19] http://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/6070.pdf
[20] The Global Risks Report 2016-11th Edition, World Economic Forum

development projects such as building hospitals, colleges, airports etc.[21] Land redevelopment is a prerequisite of such growth[22], and while they have positive externalities in the form of creation of jobs and improved access to services, they also impact the socio-economic conditions of the rural and marginalised communities. This is because, most displaced populations are not rehabilitated.

2. Work Environment and Labour Standard Violations

Unsafe working environments, discriminatory practices and poor management of workforce relationships can result in decreased productivity, lowered employee morale, high attrition rates, reputational risk, labour unrest as well as conflict with domestic and international labour laws/ standards[23]. Working conditions with inherent risks and hazardous environment, poor employment terms that do not comply with national standards, low payment/ wage terms and other unfair treatment practices by an organisation can and have resulted in labour related unrests and protests. These can hamper and even halt production processes especially in the manufacturing sector companies.

In 1996, one of the world's largest supplier of athletic shoes & apparel and a major manufacturer of sports equipment's was accused of involving sweatshop and child labor in its Asian factories. The company denied all the allegations stating that all the violations are done by their sub-contractor factories, and the liability should not be on them.

However, a leading magazine published an article on how the company is using child labor in its factories in Asia. The article carried a picture of a young boy spending his entire day stitching soccer balls for a remuneration of 60 cents. Post publication massive worldwide protests were launched by NGOs, student organizations, consumer groups, labor associations etc. The company faced a huge reputational loss even in its global markets, as activists in different countries protested outside the company's outlets holding the young boy's picture. This also led to a fall in sales, as people started boycotting the company's products. Soon after that, the company also faced allegations for worker abuse by supervisors in Indonesia. According to a press report published in a national magazine, workers at the Indonesian factory said supervisors regularly physically assaulted and verbally abused them.

The company faced not only a loss of goodwill, but also underwent financial losses as the sale of its products declined by 8 percent in 1999 and its stocks fell by 15 percent.

Box 3 Case Study: Negative impacts of violating labour laws

3. Risk to Health and Safety

Unwanted negative impacts to the health of employees, workers, consumers and communities due to an organisation's operations can result in business risks. These negative impacts can be in the form of physical or psychological effects such as respiratory illnesses, work related stress, risk of injury or death. These health issues could arise either from the business processes and systems in place or due to the products and services of an organisation[24]. For example, potential workplace health and safety hazards can include the risk of exposure of workers to chemical substances in a pharmaceutical company or the risk of accidents due to faulty machinery in a manufacturing factory. Additionally, production of food products that do not meet the required standards can put the health of a consumer at risk.

a) Risk to public health and safety

Production of harmful products and services that may not meet regulatory safety standards can impact consumer health. This can be due to use of dangerous substances, lack of information on the product etc. Additionally poor waste disposal systems in a company can result in environmental damage leading to negative impact on the health of the consumers and nearby communities. An example illustrating the negative impacts caused by poor product quality standards posing as a health and safety risk to public is depicted in Box 4.

b) Risk to workplace health and safety

Lack of regulations and systems to ensure the safety of employees (permanent, contractual and across the value chain) within a company, or keeping in check hazards at the work place may result in illness or injury of employees. For example, lack of waste management systems for hazardous raw materials, physical risk due to faulty equipment and machinery, as well as a psychologically unsafe environment due to high stress, sexual harassment, workplace harassment or occupational violence[25].

[21]http://www.brookings.edu/fp/projects/idp/articles/didreport.pdf
[22]http://shodhganga.inflibnet.ac.in/bitstream/10603/42080/16/16_chapter3.pdf
[23]http://www.ifc.org/wps/wcm/connect/2408320049a78e5db7f4f7a8c6a8312a/PS2_English_2012.pdf?MOD=AJPERES
[24]https://www.business.qld.gov.au/business/running/risk-management/keeping-workplace-safe/workplace-risk-management
[25]https://www.business.qld.gov.au/business/running/risk-management/keeping-workplace-safe/workplace-risk-management

In 2015, a global FMCG company with a widespread presence in the Indian market suffered huge reputational and financial losses, as one of its signature product was alleged to have harmful health impacts on its consumers.

The initial response from the company was to reject the accusation through social media campaigns. However, India's Food safety administration (FDA) ordered the company to recall the product after tests showed that the product contained high levels of lead and MSG. Following this, the company decided to destroy more than £32million ($50million) worth of the product produced in India.

After a few months, an Indian government approved laboratory found that product does, in fact, comply with national food safety standards. Despite the government approval for the product to return in the Indian market, the incident proved to be a huge blow to the company, which had been selling the product for over three decades in India with 80% of the market. Negligence to public health and safety not only lead to a loss of trust with consumers, but also a loss of market share.

Box 4 Case Study: negative impact of negligence to public health and safety

4. Corruption and Regulatory Violations

Corruption is often cited as a barrier to investment (domestic and foreign) which reduces growth and development of the private sector[26], and restricts trade opportunities. Corruption, not only weakens the economy of the country, but also impact the vulnerable groups in a negative manner. Since 2010, India has witnessed an increase in corruption related cases. India's ranking dropped from 87 to 94 out of 177 countries, in the corruption perception index in 2013[27], suggesting either a sharp increase in corruption related cases in India or better measures adopted by other countries on the index. Corrupt practices including bribery, preferential government procurement practices, can pose significant business risks such as damaged reputation and legal standing, thereby negatively impacting a business's license to operate. This is seen as an inherent risk especially in the oil & gas, and extractives industries where the potential payoffs are high. However the value chain is complex as it requires frequent government interactions[28]. Further these industries are mostly conducting business in emerging markets which are perceived to also have high levels of corruption due to either unstable political environments, immature systems and policies or lack of infrastructure[29]. This is witnessed especially in the form of corruption and bribery related to government procurements and contracts, tender bidding, assignment of subsidies, laws related to taxation and customs as well as dealing with judiciary and legal bodies.

Corruption in internal processes is also an additional threat to the working of businesses. These include risk of nepotism and corruption in hiring practices, as well as the risk of employees being involved in fraudulent practices such as financial frauds and information theft[30], embezzlement or collusive activities with competitors or linkage to criminal organisations.

B. Social Risks External to Businesses

1. Demographic Movement

Population composition and change in the make-up of the population, such as increasing increasing number of youth, ageing, migrants resulting resulting from urbanization etc., in a country or even a specific region can impact the performance of institutions in these areas.

One of the key confectionery companies with a global presence faced allegations of bribery for a factory based in an industrial town in India.

The company concluded in an internal report by its lawyers in 2011 that it had used a consultant to funnel bribes to Indian officials in return for factory approvals and permits, which ultimately allowed the company to claim a tax exemption valued at more than $90 million. The report also said that the company further paid fees to eight other consultants from May 2008 to October 2010 "for which the only reasonable explanation is that they have been used to mask payments to government officials." The company didn't disclose these findings to federal authorities who were investigating the company's payments, but a whistle-blower provided it to authorities earlier in 2015.

As a result, the company faced heavy penalties from the Indian tax authorities along with the reputational loss due to negative media attention.

Box 5 Case Study: Negative impact of corrupt business practices

[26] https://www.gov.uk/government/publications/overseas-business-risk-india/overseas-business-risk-india#bribery-and-corruption
[27] Transparency International. 2014. "Corruption by Country / Territory – India".
[28] http://www.ethicalcorp.com/business-strategy/corruption-reputation-risk-and-opportunity
[29] http://www.ey.com/Publication/vwLUAssets/EY-Managing-bribery-and-corruption-risk-in-the-oil-and-gas-industry/$FILE/EY-Managing-bribery-and-corruption-risk-in-the-oil-and-gas-industry.pdf
[30] http://www.pinkerton.com/filebin/pdf/India_Risk_Survey_2014_Report_2.pdf

Lack of adequate social infrastructures[31] and growing economic disparities within an economy lead to varying earning differentials and access to facilities and services. For example; Half of India's population falls under the age group of 25 years[32]. However, lack of infrastructure and low public and private sector investment especially in the fields of education, livelihoods and skill development, and health has resulted in a growing unskilled workforce[33]. Further a reduction in demand for low skilled labour and an increasing use of technology has contributed to a shift in demand in terms of skill requirements[34]. Lack of skilled and trained human capital can restrict business opportunities and growth of organisations. This plays a major role in the manifestation of social risks such as inadequate trained human capital and poor labour market conditions[35].

2. Political and Social Instability

Political and social instability within an economy refers to political uncertainty such that it may result in a changing governance landscape, shift in power, and failure in national governance, conflict or social unrest[36]. Such political risks perpetuate the vulnerability of the poorest, the under-represented and the marginalised sections of society. Civil unrest, insurgency, terrorism, communal riots arising from religious differences, demonstrations and strikes have associated risks and impacts on businesses as well as the society as a whole[37]. Companies working in such regions face the potential of violence, expropriation and can put at risk the security of their staff and stakeholders as well as hamper assets and supply chains. In the Indian context, areas affected by Naxalite and Maoist movements are prone to disruption of business operations and shutting down of services in some cases. The economic impact of the various conflicts in India was estimated to cost the Indian Government USD177 billion in 2013. This was equivalent to 3.6 per cent of India's GDP.[38]

3. Environmental Risks

Businesses based on the industry type have varying social, economic and environmental impacts. In the same way, the environment can pose risks to a business and its reputation in terms of reputational damage, financial risks associated to violation of regulatory standards or fall in demand for the brand[39]. These can be in the form of groundwater depletion or contamination of surrounding communities, climate change due to increasing industry GHG emissions from the industries (thus, causing extreme weather conditions, and natural disasters), and disruption of biodiversity (especially vulnerable and protected species) and disasters.

4. Economic Risks

Economic risks are usually macroeconomic conditions that can negatively impact businesses and their functioning include aspects of growing middle-income group, increase in geographic mobility, increase in economic inequality, fiscal crisis, inflation etc[40]. Such risks can result in regulatory and policy changes that may directly impact a business in terms of cost of labour, raw material, taxes etc.

A leading Indian consumer goods company owned by Anglo-Dutch Company, was accused of mercury contamination in one of its factories located in a southern state of India. It was alleged that proper waste dumping measures were not taken at the thermometer factory. A Government of India committee stated their fears that the employees were exposed to toxic levels of mercury in the factory, and that many of their and their families' health problems are caused by the toxic metal's effects. The company faced protests from local workers, labour unions and international civil society organisations.

Continuous reports of environmental abuse led to closure of the thermometer factory in 2001 on the orders of Tamil Nadu Pollution Control Board (TNPCB). It was established that the company had committed an offence under the Hazardous Waste Management Act.

Box 6 Case Study: Environmental risk as a threat to business continuity

[31]Social Infrastructure is a subset of the infrastructure sector and typically includes assets that accommodate social services, such as schools, universities, hospitals, prisons and community housing (http://www.nzsif.co.nz/Social-Infrastructure/What-is-Social-Infrastructure/)
[32]http://www.theguardian.com/commentisfree/2014/apr/08/india-leaders-young-people-change-2014-elections
[33]https://www.gov.uk/government/publications/overseas-business-risk-india/overseas-business-risk-india#political
[34]http://www.cardiff.ac.uk/socsi/research/researchcentres/skope/publications/researchpapers/WP111.pdf
[35]http://ec.europa.eu/regional_policy/sources/docgener/studies/pdf/challenges2020/regional_challenges_new_social_risk.pdf
[36]http://ficci.in/Sedocument/20276/report-India-Risk-Survey-2014.pdf
[37]https://botfl.nd.edu/pdf/security/GlobalBusinessUnderAttack.pdf
[38]http://economictimes.indiatimes.com/articleshow/36772179.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst
[39]http://www.tandfonline.com/doi/pdf/10.1080/13669877.2014.1003323
[40]http://www.tandfonline.com/doi/pdf/10.1080/13669877.2014.1003323

2.3.3 SECTORS AND TRENDS

Activities of businesses and industries sometimes result in social risks. The occurrence of these risks vary depending on the type of industry. These social risks have resultant business risks in the form of financial loss, regulatory sanctions, supply chain disruption or reputational damage etc.

Business risks for companies can also be categorised as 'strategic risks'[41], as they can create an immediate impact on a business, even though they may not necessarily translate into a 'real' time effect in the short term. Pressure points often involved human rights, labour, or environmental issues.

If we take a sample of companies based on the industry categorizations as defined by the National Industrial (Activity) Classification 2008, we can identify the most common social risks for an industry/sector[42]. While these sectors/ industries can create multiple negative impacts / social risks, these are some of the key social risks associated with the sectors, as given below:

- *Mining and Quarry Industry*

  Within the mining sector, **involuntary displacement and land acquisition** impacting rights of indigenous people are the core risks. The largest number of mining induced displacements in the world occurred in India where 2.55 million people were displaced from 1950-1990[43]. This arises from businesses exploiting areas with rich mineral deposits and low land acquisition costs, which are located in regions with high population density. Displacements, such as those of the adivasis in Bastar (Chattisgarh) by mining companies, have become the centre of major international and national environmental and human rights related discussion.[44]

- *Construction Sector*

  The construction sector includes building and maintenance of infrastructure, and refurbishments. In terms of social risks, **labour migration** and impact on workers and their families are prominent. Most construction sector workers are seasonal migrants from regions with poor livelihood opportunities. They also lack any bargaining power with respect to wages and working conditions, and therefore workers and their families are forced to have poor living and working conditions, lacking basic minimum wages and basic benefits[45]. Construction sites also in general put at risk the safety of workers as they are required to work at risky locations, heights and under incomplete structures. The lack of safety protocols and training of staff and labour heighten the exposure to these risks.

- *Manufacturing Sector*

  Manufacturing sector companies are highly prone to creating **environmental and health hazards** due to the release of waste liquids and toxic substances during the production processes. These pose health risks to workers from the heat vapour fumes produced and as well as the surrounding communities due to emissions and contamination of water. Another serious social risk created by certain industries such as garment and carpet manufacturing, footwear export etc. lead to human rights violations due to the prominent use of child labour.

- *Agriculture Sector*

  Within the fishing, crop and gardening sectors, the largest threat posed are risks of **natural resource depletion and diminution of biodiversity, and climate change.** These risks can lead to negative impacts on the soil (erosion, fertility etc.), making the land prone to landslides and increasing the risk of floods, which directly affects the incomes and standard of living of the farmers.

2.3.4 VULNERABLE POPULATION AND IMPACT

In developing economies like India, a significant percentage of the population lack access to basic services such as health, education, housing, food, and employment. These people are also among the underrepresented with respect to social and political participation.

Within the Indian context, vulnerable groups are identified based on factors of discrimination that result in isolation of the population as well as act as barriers to accessing services such as education, healthcare, land etc. These include **'Women, Dalits and Adivasis, Children, Aged, Persons with Disabilities, Poor communities especially**

[41] http://boozallen.com/about/corporate-citizenship/48693932/4149082
[42] ESAT Environmental a and Social Assessment Tool (Sector Fact Sheet), World Bank
[43] Lassey, G. A. (2002). The gloom behind the glitter of Ghana mining: community rights and the Tarkwa experience. Third world network. Africa Issue, 101.
[44] http://commdev.org/files/1376_file_Avoiding_New_Poverty.pdf
[45] http://www.solutionexchange-un-gen-gym.net/wp-content/uploads/2015/11/Impact-of-Labour-Migration-to-the-Construction.pdf

migrants, People living with HIV/AIDS and Sexual Minorities'[46]. These groups of population are socio-economically disadvantaged and therefore are most vulnerable to social risks. For example, the health of an individual or groups may depend on the conditions such as living income, decent living conditions, access to safe drinking water, etc., and all the above factors are heavily influenced by whether or not an individual belongs to a group that is discriminated against.

While all vulnerable groups are impacted by the various social risks identified above, some groups are impacted by particular social risks more than the others. This higher risk of exposure to a particular social risk arises from the fact they have lesser access to as well as lack of knowledge about risk management instruments that can help them protect themselves[47].

1. *Women*

   Exposure of social risks is the highest to women, as apart from gendered inequalities they also fall under other vulnerable groups and are impacted by discrimination in caste, class or community. Social risks by businesses on women especially arises from **gender inequality** at the workplace in terms of wage, type of work and harassment, along with being impacted by other social risks such as consumer risks, environmental risks as well as risks related to health and safety.

2. *Dalits and Adivasis*

   In a country stratified by caste and other social considerations, people from the Dalit community as well as the Adivasi population have been historically marginalised, witnessed structural discrimination and hence the resultant inequalities. Despite the Indian Constitution providing for specific provisions ensuring equality of opportunity among other rights, members of the Dalit community face discrimination in employment opportunities making them vulnerable to **workplace risks** and further accentuating their poverty.

   Fundamental to these structural inequalities confronted by the *Dalits* and *Adivasis* is their lack of access to essential services such as health care facilities exposes them to **health risks,** as they do not have the required means (financial stability or social standing) to tackle the impact of the social risk. The *Adivasis* constitute a large proportion of agricultural labourers, casual labourers, industrial labourers[48] and are a socially and economically disadvantaged group. This makes them prone to **labour health and safety risks.**

   This is only an illustrative list as deprivations and exclusions emanate at multiple levels of access that are compounded by systemic neglect by way of inadequate public provisioning for these groups. Affirmative action to ensure their equitable participation in education, employment and other fields has been a continued struggle.

   Multiple studies by NGOs highlight that women and children living in mining areas suffer from significant social risks. This stems from the fact that most large scale mining projects are set up in tribal regions, making the Adivasis most prone to the related social risks. Similarly, while people living in these areas are compensated with money, the Dalit communities do not benefit from these compensations as they are not land owners and work as labourers on other people's land.[50]

3. *Children*

   As per Census 2011, there are approximately 8.25 million working children between 5-14 years of age, most working across hazardous industries such as mining. **Human rights violations** in the form of **child labour** is one of the core social risks that impact children in India, as a consequence of poverty. For example, 40% of the labour in the diamond cutting sector are children[51].

4. *Aged Population and Persons with Disabilities*

   In 2010, India had approximately 90 million people over the age of 60 years. In 2013, the UN had estimated this population to increase to 320 million by 2015[52]. According to Census 2011, India's persons with disabilities (PwD) population was estimated at 26.8 million. The aged and PwD are disproportionately

[46]http://www.cehat.org/humanrights/vulnerable.pdf
[47]http://siteresources.worldbank.org/INTSRM/Publications/20316319/RVA.pdf
[48]http://www.cehat.org/humanrights/vulnerable.pdf
[49]http://www.tata.com/sustainability/articlesinside/Tata-Affirmative-Action-Programme
[50]http://www.childlineindia.org.in/child-labour-india.htm
[51]http://www.childlineindia.org.in/child-labour-india.htm
[52]http://articles.economictimes.indiatimes.com/2013-08-26/news/41455304_1_60-years-india-320-million-people

vulnerable, especially to **disaster emergencies (environmental risks),** with the PwD also witnessing significant discrimination in terms of **employment (workplace risk).**

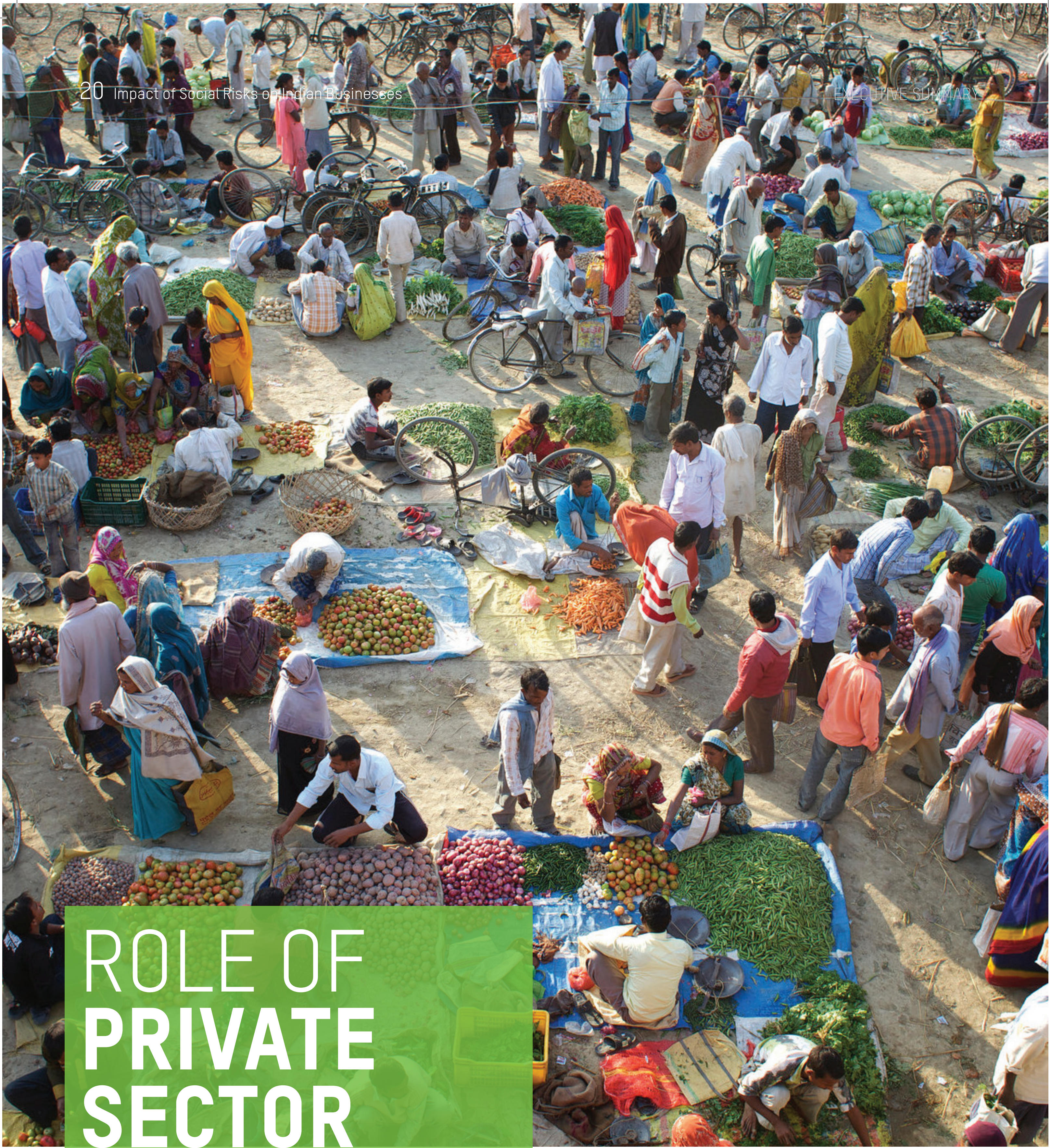
5. *Poor communities /migrant labor force*

   Poorer segments of the population including migrants are less skilled and lack access to livelihood opportunities. Large number of the migrant community live in shanty arrangements around factories and plants as well as work in these factories, especially from the manufacturing and mining industry. This makes them significantly vulnerable to **labour risks** as well as **environmental risks,** which can result in disruption of livelihood, food insecurity etc[53].

6. *Sexual Minorities*

   There are negative perceptions towards certain segments of society varying in lifestyles and sexual orientation (gay, lesbian, transgender, bisexual and *hijra*). According to a UNDP study (2010), the estimated size of MSM[54] and male sex worker populations in India (latter presumably includes *Hijras*/transgender communities) is 2,352,133 and 235,213, respectively. However, no reliable estimates are available for *Hijras*/transgender women.[55] The negative perception towards these groups results in the exclusion of these minorities from the society and their lack of access to equal opportunities in terms of health care, job opportunities, political participation etc. This makes them especially vulnerable to discrimination in the form **human rights risks and workplace risks.**

[53]http://www.who.int/hac/techguidance/health_of_migrants/B122_11-en.pdf
[54]MSM stands for Men who have Sex with Men, according to UNDP study. (Source: http://www.undp.org/content/dam/india/docs/hijras_transgender_in_india_hiv_human_rights_and_social_exclusion.pdf)
[55]http://www.undp.org/content/dam/india/docs/hijras_transgender_in_india_hiv_human_rights_and_social_exclusion.pdf



ROLE OF PRIVATE SECTOR

3.1 ROLE OF PRIVATE SECTOR AND CURRENT TRENDS

Businesses often engage with socio-demographic groups that are at a higher risk of socio-economic or cultural exclusion since they form part of their value chain as workers, suppliers or consumers. Therefore, the private sector experiences significant exposure to risk across stakeholder segments unless effective prevention, mitigation and coping strategies are designed and adopted by these companies. However, a

short-sighted commercial focus towards risk management is still prevalent in businesses, which prevents them from acknowledging the long-term benefits accruing from effective social risk management.

Companies need to better understand their externalities, as doing business is increasingly being shaped by social and environmental challenges that are no longer external to companies. Historically, externalities have had little or no impact on the cash flows or risk profiles of most companies. Companies have not been fully rewarded for their positive externalities and have also not paid for much of the damage they cause through negative externalities such as carbon emissions or the social effects of poor working conditions. For this reason, externalities have been largely excluded from the measurement of corporate value. But this disconnect between corporate and societal value is disappearing. However, these social and environmental issues that were considered to be external earlier are rapidly being internalized, whether through regulation such as taxes or pricing, changing market dynamics including resource shortages, or more frequent and impactful stakeholder pressure. This internalization is also bringing about new opportunities and new risks with significant implications for corporate value creation.

The following sections explain the key drivers for corporates to integrate social risks into decision making, and the existing practices to manage such risks.

3.2 INTEGRATING SOCIAL RISK IN CORPORATE DECISIONS

3.2.1 Drivers for Addressing Social Risks

In recent years, the Indian corporate sector has increasingly taken several initiatives on the social and environmental front, either driven by compliance or driven by a market pull. While the key driving factor is the growing level of global awareness about social and environmental issues, there are several other drivers for addressing social risks, which can be broadly categorised into the following.

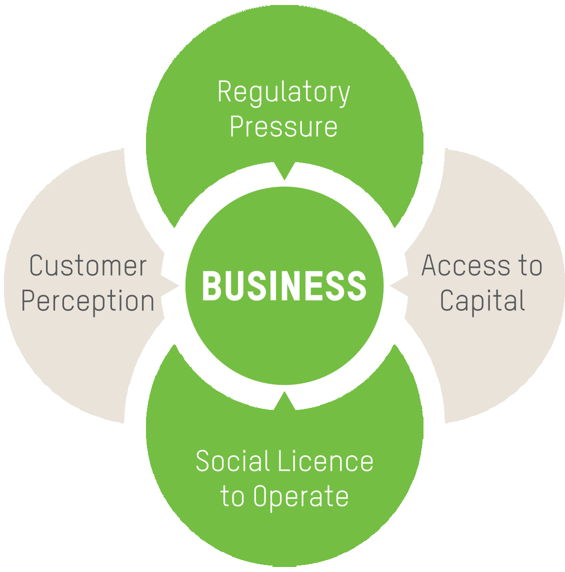


Figure 4 Key drivers for businesses to address social risks

Regulatory pressure

Legislation can be a powerful force of change. The stance and level of activity by various governments on responsibility of corporate towards society is varied across the globe. Legislation on occupational health and safety has existed in India for several decades, with laws such as the Factories Act,1948 (latest amendment in 1987); Mines Act, 1952, Dock Workers (Safety, Health and Welfare) Act, 1986; Plantation Labour Act, 1951; Explosives Act, 1884; Petroleum Act; 1934; Insecticide Act, 1968; Indian Boilers Act, 1923; Dangerous Machines (Regulations) Act, 1923; Indian Atomic Energy Act, 1962; Radiological Protection Rules; 1971; Manufacture, Storage and Import of Hazardous Chemicals Rules, 1989; Electricity Act, 2002.[56] Similarly, there are several legislations for protection of environment, prevention and control of industrial pollution formulated and enforced by the Ministry of Environment and Forests (MoEF), the Central Pollution Control Board (CPCB), State Departments of Environment, State Pollution Control Boards (SPCBs) and Municipal Corporations.[57] Non-compliance to these legislations lead to penalties which can vary from a fine to imprisonment, depending on the severity of the breach.[58]

In July 2011, the Indian Ministry of Corporate Affairs released the National Voluntary Guidelines on Social, Environmental & Economic responsibilities (NVGs) for India, which are aligned with international frameworks and instruments and respond to the unique Indian context

[56]Source: http://isidev.nic.in/pdf/DN1204.pdf
[57]Source: http://www.undp.org/content/dam/india/docs/analysis_of_existing_environmental_instruments_in_india.pdf
[58]Source: http://us.practicallaw.com/0-503-2029

at the same time.[59] Following this, in August 2012, the Securities and Exchange Board of India introduced a new reporting requirement, which mandates the Top 100 listed companies on Indian stock exchanges to include a report on their Business Responsibility towards Environmental, Social and Economic aspects, based on the National Voluntary Guidelines in their Annual Reports. This is likely to be revised to bring 500 top companies under the mandate.[60] In addition, the new Companies Act 2013 introduced a mandate for companies of a certain financial strength to report on spending 2% of their average net profit of the last three years on corporate social responsibility.[61] It provides the Indian corporates with an opportunity to leverage on their CSR funds to address some of the social risks identified by them.

Customer Perception

The customer perception about a company is formed not only on the basis of functional and utility value of its products, but also on the basis of brand and reputation of the company. Research studies have shown that market reactions are found to be negative for socially irresponsible companies. When customers are dissatisfied with a product or its associated services, investors apprehends that negative customer reactions in the form of deceased patronage, lawsuits, or both, will affect the firm's performance. Event studies establish that market value of a company decreases when corporate irresponsibility and illegal behaviour is observed. For example, the news of pesticide content in some leading beverage companies in India had reduced the sales of both companies by around 60%, due to public health and safety concerns.[62]

Hence, it is essential for companies to mitigate this risk of reduced customer base due to irresponsible social behaviour. Effective uptake of environmental and social issues can significantly boost brand value and increase customer connectivity.

Social License to Operate

A social license to operate generally refers to a local community's acceptance or approval of a company's project or ongoing presence in an area. It is increasingly recognized by various stakeholders and communities as a prerequisite to development. The development of social license occurs outside of formal permitting or regulatory processes, and requires sustained investment by proponents to acquire and maintain social capital within the context of trust-based relationships.[63] Thus, it becomes essential for companies to address the needs of local communities around their operations. Long-term trust building with surrounding communities can be undertaken by minimizing the negative impacts of the business operations to the community, and introduction of certain initiatives to mitigate the social issues faced by the communities. For companies whose suppliers are located in the surrounding communities, undertaking such efforts also builds long term supplier relations, thus, ensuring operational continuity for businesses. More recently, the emergence of 'triple bottom line'[64] accounting has also prompted many organisations to take a more objective look at their impacts on people and communities, while also focusing on environmental impacts.

Access to capital

Social risks can have a significant and measurable impact on key financial value drivers. A cohort of lending institutions have quantified these impacts and adopted comprehensive 'Responsible Investment' guidelines. This has primarily resulted in two new trends:

- Leading banks, funding institutions and capital providers seek information on companies' environmental and social performance. This information is used to evaluate project proposals across various sectors, and to form investment decisions. Some of the common Environment, Social and Governance (ESG) frameworks utilized by lending institutions are elaborated in Section 3.2.2. However, most of these frameworks are developed and implemented by foreign investors or multilateral banks, and the penetration of such frameworks and standards in India remains low.
- Public disclosures on social and environmental performance are utilized by analysts to benchmark historic performance, establish linkages between

[59]Source: https://www.google.co.in/url?sa=t&rct=j&q=&esrc=s&source=web&cd=8&cad=rja&uact=8&ved=0ahUKEwig58K7mMLLAhVK6mMKHXW0DEkQFghFMAc&url=http%3A%2F%2Fwww.cuts-ccier.org%2Fbrcc%2Fppt%2FIndias_CSR_Policy_and_the_NVGs_IICA.pptx&usg=AFQjCNHTQMLa8QGvfUuFmVg2-034gqWHTw&bvm=bv.116954456,d.cGc[60]Source: http://timesofindia.indiatimes.com/business/india-business/Business-responsibility-reports-must-for-top-500-listed-companies-Sebi/articleshow/49987154.cms
[61]Source: http://www.kpmg.com/CH/Documents/Blog/pub-20140430-csr-india-changing-landscape-en.pdf
[62]Source: Mishra, S. and Suar, D. (2010). Does Corporate Social Responsibility Influence Firm Performance of Indian Companies?. Journal of Business Ethics, 95: 571-601.
[63]Source: http://www.nbr.org/downloads/pdfs/eta/PES_2013_summitpaper_Yates_Horvath.pdf
[64]The TBL is an accounting framework that incorporates three dimensions of performance: social, environmental and financial. This differs from traditional reporting frameworks as it includes ecological (or environmental) and social measures that can be difficult to assign appropriate means of measurement. [Source: http://www.ibrc.indiana.edu/ibr/2011/spring/article2.html]

financial and non-financial parameters and evaluate trends. Several stock exchanges and indices have been set up to work exclusively on establishing these connections. The major indices include the Dow Jones Sustainability Index, FTSE4Good Index series, MSCI Sustainability Index and STOXX.[65]

3.2.2 Existing Standards and Frameworks for Assessing Social Risks

There has been a growing level of interest from companies to incorporate non-financial parameters into decision-making, in the recent years. One of the key drivers (as explained above) is the shift in attitudes of institutional investors towards environmental and social impacts of businesses. Globally, investors and analysts have begun considering the environmental and social performance of companies in their fundamental analysis, with the underlying premise that companies that proactively manage these issues are better placed than their competitors to generate long-term tangible and intangible results. A recent research report analysing ESG trends stated that "in 2015, the bonds of high-yield energy and mining companies that ranked in the bottom 5% on governance factors (of MSCI ESG Governance Metrics) scores globally showed negative financial returns of 58.3%, compared with a positive 8.5% total return among the top 5%. Interestingly, this relationship was also demonstrated in non-commodity sectors, where the total return differential between top and bottom-ranked companies was 7.3%".[66]

As responsible financing has assumed growing importance globally, various multilateral financing agencies and development agencies across the world have taken measures to address this cause. The concept of ESG[67] was first proposed in June 2004 by the UN Global Compact's "Who Cares Wins" initiative to focus mainstream investors and analysts on the materiality of and interplay between environmental, social and governance issues. Basel III norms due to be implemented by 2019 in India encourage a new risk management culture with greater thrust on transparency and accountability besides maintaining high capital standards. The United Nations Global Compact and the United Nations Principles for Responsible Investment (UNPRI) have gathered increasing numbers of corporate and investor signatories from around the world.

Thus, it is evident that the social and environmental risks to businesses are not only crucial because of their importance to operational continuity of their business, but they also play a significant role in increasing or decreasing their potential to access finance. This section provides an overview of some prominent existing frameworks, which are commonly used by Indian as well as global investors, while making their investment decisions. These frameworks, in turn, also serve as tools for companies aiming to increase their potential to attract finance. A short summary of some of the key frameworks have been listed below; please refer to Annexure 1 for detailed information on these frameworks.

- **National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Businesses**

  The NVGs were released by the Ministry of Corporate Affairs in 2011. It is a comprehensive set of guidelines that encompasses social, environmental and economic responsibilities of businesses.

- **SIDBI's Environment & Social Risk Management Framework**

  Small Industries Development Bank of India (SIDBI) is the Principal Financial Institution for the promotion, financing and development of the Micro, Small and Medium Enterprise (MSME) sector in India, and for co-ordination of the functions of the institutions engaged in similar activities.[68] SIDBI has developed and adopted an Environmental and Social Risk Management Framework, which is specific to the MSME industry in India.

- **United Nations Principles of Responsible Investment**

  The United Nations-supported Principles for Responsible Investment (PRI) Initiative, launched in 2006, is an international network of investors working towards responsible investment, with the goal of understanding the implications of sustainability for investors and support signatories to incorporate these issues into their investment decision making and ownership practices.

- **IFC Performance Standards**

  International Finance Corporation (IFC) is the private sector lending arm of World Bank. IFC has set certain

[65]Source: http://www.ficci.com/spdocument/20361/FICCI_Sustainability_Conclave_Report2014_final.pdf
[66]Source: https://www.msci.com/documents/10199/2d079787-4fcd-4b3e-9a08-e3243cad33da
[67]'ESG' is a common term is referred to Environmental, Social and Governance
[68]Source: http://www.sidbi.com/?q=about-sidbi

Performance Standards, which provide guidance on how to identify risks and impacts, and are designed to help avoid, mitigate, and manage risks and impacts in a sustainable way.

- **World Bank Social Safeguard Policies**

  The World Bank's social safeguard policies are a cornerstone of its support to sustainable poverty reduction. The objective of these policies is to prevent and mitigate undue harm to people in the development process.

- **ADB Safeguard Policy Statement**

  Asian Development Bank (ADB) is a regional development bank dedicated to reducing poverty in Asia and the Pacific through loans, grants and economic research. ADB developed a Safeguard policy Statement in 2009, with the goal of ensuring the social and environmental sustainability of the projects it supports.

- **Equator Principles**

  The Equator Principles, developed in 2013 is a risk management framework, adopted by financial institutions, for determining, assessing and managing environmental and social risk in projects. It is primarily intended to provide a minimum standard for due diligence to support responsible risk decision-making.

- **CDC ESG Toolkit**

  CDC is the British development finance institution (DFI), owned by the UK government's Department for International Development (DfID). CDC contributes to long-term poverty reduction in developing countries CDC, by providing capital to private sector for investing in promising businesses in emerging markets, with a particular emphasis on sub-Saharan Africa and South Asia.

- **FMO ESG Toolkit**

  FMO is a Dutch Entrepreneurial Development Bank, with the objective of creating sustainable impact in developing countries by supporting private sector businesses and boosting self-sufficiency. FMO has developed two tools to support its clients in terms of environmental, social and governance (ESG) risk management. The tools are specifically targeted at private equity investment funds and microfinance institutions (MFIs) and small and medium enterprise (SME) banks.

- **United Nations Guiding Principles on Business and Human Rights**

  The UN Guiding Principles on Business and Human Rights are a set of guidelines commissioned by the UN for States and companies to prevent, address and remedy human rights abuses committed in business operations.

3.2.3 Current Practices in Identifying and Measuring Social Risks

With the growing pressure on businesses to address their social and environmental impacts, several tools and methods have been developed for identifying and assessing such risks. This section explores some of these prominent tools and the current practices in use by Indian as well as global companies.

1. **Materiality Matrix**

   Materiality analysis is an approach for identifying critical economic, environmental and social issues, which may either reflect a significant impact on the company's business performance or substantively influence the assessments and decisions of its stakeholders. Though it is done in relation to sustainability strategies, identification of social risks is an essential component of the overall process of materiality analysis, and is carried out through a thorough stakeholder consultation. This is a practice widely used by Indian as well as global companies, primarily due to the growing focus on materiality in reporting frameworks and accounting standards, such as the Global Reporting Initiative's (GRI) G4 guidelines, and the International Integrated Reporting Framework

   The matrix measures significance to stakeholders on one axis, and significance to company on the other axis. The process of deriving quantified values for these is a stakeholder-driven process, and requires multiple consultations with the relevant stakeholders and internal interactions with different departments. The key outcome from the materiality matrix is a list of environmental as well as social issues, which are of core significance to the company, its supply chain and other relevant stakeholders.

   Materiality assessment is, most often, used in sustainability reporting exercises. However, it can also be used as a strategic business tool, with implications beyond corporate responsibility or sustainability reporting. Organizations can get most benefit from their materiality process by using it as an opportunity to identify their key business risks including social, environmental and reputational aspects, which can be mitigated at the early stages of a particular project.

2. **Social Return on Investment (SROI)**

   Social Return on Investment (SROI) is a systematic way of incorporating social, environmental, economic and other values into decision-making processes.[69] It is a tool for measuring the total value generated for every rupee invested in a project. While SROI is commonly used for development projects, it is also increasingly being used by corporates to measure types of value other than the traditional financial value. It monetises social, environmental and financial outcomes of a development sector project or programme, organisation or even a policy, through a combination of Cost Benefit Analysis (CBA), Opportunity Cost Analysis and Impact Assessment methods. It differs from traditional cost benefit analyses, as it internalises and monetizes the direct qualitative outcomes, which CBA generally captures through case studies.

3. **Impact Assessment Tools**

   A balanced development planning takes into account the environmental, social and biodiversity impacts of economic development. Environmental Impact Assessment (EIA), Social Impact Assessment (SIA) and biodiversity impact assessments are some of the methods that aid in the planning and decision making process. These impact assessments help in identifying the likely positive and negative impacts of proposed projects, and thus facilitate informed decision-making.

   A Social Impact Assessment is based on the assumption that projects have impacts beyond the traditional financial impacts, which are illustrated in figure 5.

SIA is a tool which is used to assess social impacts from proposed project, and plays a crucial role in decision-making. The main types of social impacts that occur as a result of any project can be grouped into five overarching categories:

- Lifestyle impacts – on the way people behave and relate to family, friends and cohorts on a day-to-day basis

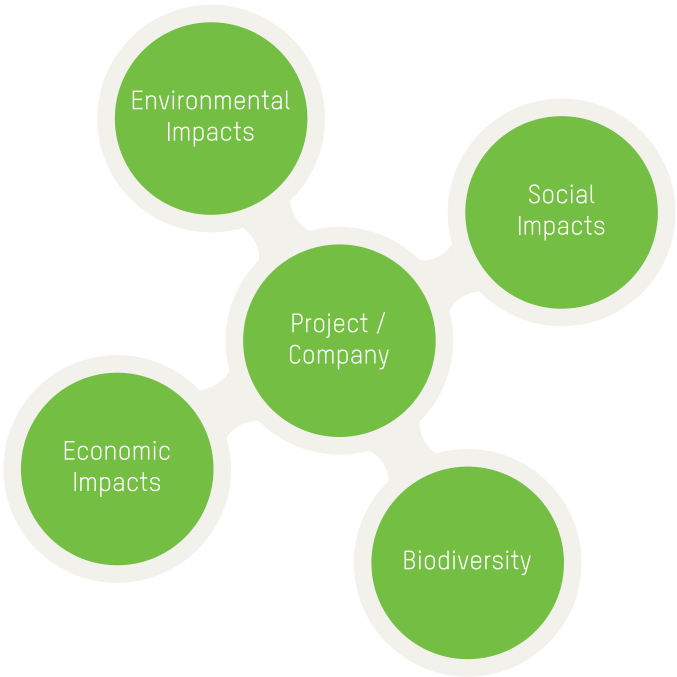


Figure 5 Social Impact Assessment: Potential impacts of businesses

- Cultural impacts – on shared customs, obligations, values, language, religious belief and other elements which make a social or ethnic group distinct
- Community impacts – on infrastructure, services, voluntary organizations, activity networks and cohesion
- Quality of life impacts – on sense of place, aesthetics and heritage, perception of belonging, security and livability, and aspirations for the future
- Health impacts – on mental, physical and social well-being, although these aspects are also the subject of health impact assessment[70]

The SIA Process typically involves the following steps:

- Screening: Defining the scope and extent of SIA required
- Scoping: Identification of the key social issues and socioeconomic profiling of baseline conditions
- Impact Analysis: Identification and assessment of impacts of a proposed project and evaluation of its significance to the region
- Mitigation: Designing of an action plan to prevent, reduce or compensate for adverse impacts
- Reporting: Providing the results of SIA study for future use in decision-making

[69] Source: http://betterevaluation.org/approach/SROI
[70] Source: http://unpan1.un.org/intradoc/groups/public/documents/cgg/unpan026197.pdf

- Review: Validation and review of the quality of the SIA report
- Decision-Making: Use of SIA study outcomes to approve, reject or conditionally approve a proposed project
- Monitoring and review: Monitoring of the performance against the action plan made as part of SIA
- Public Involvement: Timely consultations with stakeholders[71]

Some tools that are widely used across the globe are listed as follows:

- The Poverty Footprint Tool: It enables companies and civil society partners to understand corporate impacts on multi-dimensional poverty by providing a comprehensive overview of factors that influence poverty, while emphasizing on stakeholder engagement and partnership between companies and civil society as a means for establishing pro-poor business strategies.[72]
- The Human Rights Identification Tool: It aims to help companies become aware of a range of potential and/or existing human rights risks and impacts
- The Human Rights Due Diligence Mapping Tool: It aims to help companies map the policies, risks and impact assessment processes and management systems that address potential and/or existing human rights risks and impacts[73]

4. Audits and Accreditations

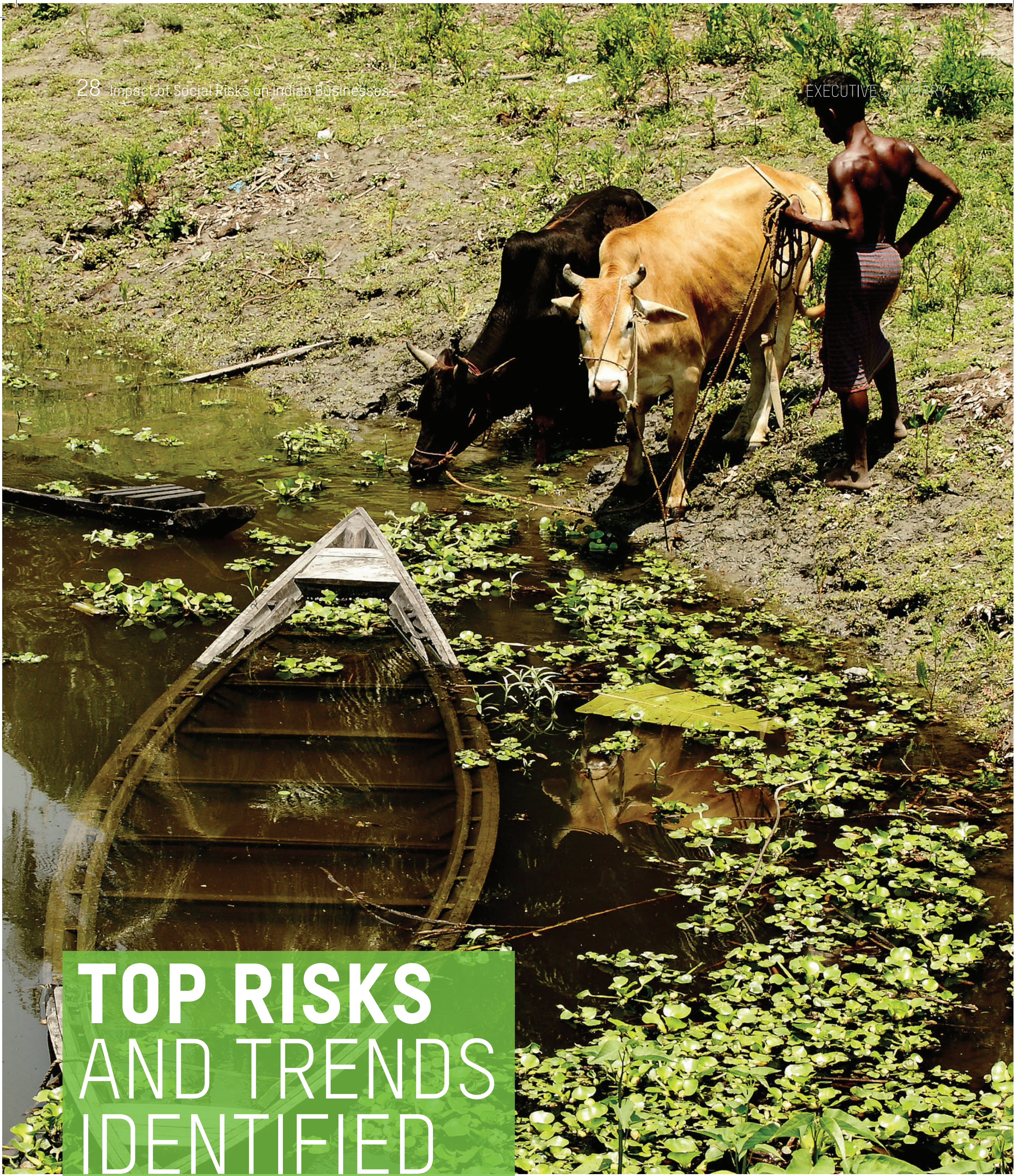
The International Standards Organization (ISO) has produced a number of auditable standards and accreditation systems for reporting on social and environmental performance. In particular, it provides standards on environmental management systems (ISO 14000 series). ISO 14002 is a guide for environmental auditing and qualification criteria for environmental auditors. ISO 26000 is a voluntary standard, which provides guidance to organizations on their social responsibility issues and possible actions with relevant stakeholders. As yet, however, there are no ISO standards that specifically address social reporting and auditing.

Social Accountability International (formerly Council on Economic Priorities Accreditation Agency) launched SA8000 in 1997, as a standard addressing labor and workplace conditions. It is also a system for independent verification of factories' compliance to the standard. The SA8000 system is modelled on the International Standards Organization (ISO) standard, ISO 9000, used by companies to ensure quality control and to demonstrate the quality of business systems and operations to customers.

AA1000, developed by the Institute of Social and Ethical Accountability and launched in November 1999, is a 'process standard' setting out principles and a method for social reporting that focus on the process rather than the content of the social report. Within the standard are guidelines addressing principles for the conduct of the social and ethical auditor.[74]

These measures are effective components of risk management for companies, as they set the benchmark for monitoring of the companies' performance. However, they do not provide any guidance for identification of social or environmental risks.

[71]Source: https://www.google.co.in/
url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&cad=rja&uact=8&ved=0ahUKEwiYwN0k687JAhUJi5QKHVzdDhwQFggjMAA&url=http%3A%2F%2Fdolr.nic.in%2FSocial_Impact_Assessment%2520HMM-2011.doc&usg=AFQjCNFxtuZ-dEzxoUAqSR3ubWg3NWly9g&bvm=bv.109332125,d.dGo
[72]Source: https://www.unglobalcompact.org/library/3131
[73]Source: http://www.ifc.org/wps/wcm/connect/8ecd35004c0cb230884bc9ec6f601fe4/hriam-guide-092011.pdf?MOD=AJPERES
[74]Source: http://nseindia.com/content/research/Paper84.pdf



TOP RISKS AND TRENDS IDENTIFIED

The following social risks were identified on the basis of an in-depth secondary research, and were analysed later on the basis of primary interactions with the respondent group consisting of industry associations, corporates, bilateral donors and civil society organizations. The comprehensive list of social risks is as follows:

- R1 - Involuntary displacement and resettlement of communities
- R2 - Violation o human rights (Employment of forced or child labor, gender inequality)
- R3 - Violation of indigenous peoples' rights
- R4 - Destruction of biodiversity (especially vulnerable and protected species)
- R5 - Degradation of environment (contamination of land, ground water, water bodies, etc.)
- R6 - Non-compliance to health and safety regulations
- R7 - Labor Unrest (Non-payment of minimum wages, safety of working conditions, collective bargaining)
- R8 - Lack of skilled workforce
- R9 - Discrimination and unfair treatment of people
- R10 - Groundwater depletion or contamination for surrounding communities
- R11 - Climate change due to increasing industry GHG emissions from the industries (thus, causing extreme weather conditions, and natural disasters)
- R12 - Corruption, bribery and corporate frauds
- R13 - Crime, terrorism or civil insurgency
- R14 - Social and Political Instability

The respondents were asked to rate these risks on a Likert scale of 1 to 5, depending on their perception of an issue's importance to business and importance to society. According to the analysis of responses from companies, industry associations and civil society organizations, the following social risks were identified to be the top social risks:

R6 - Non-compliance to health and safety regulations

R5 - Degradation of environment (contamination of land, ground water, water bodies, etc.)

R7 - Labor Unrest (caused due to non-payment of minimum wages, safety of working conditions, collective bargaining)

R4 - Destruction of biodiversity (especially vulnerable and protected species)

R11 - Climate change due to increasing industry GHG emissions from the industries (thus, causing extreme weather conditions, and natural disasters)

R2 – Violation of human rights

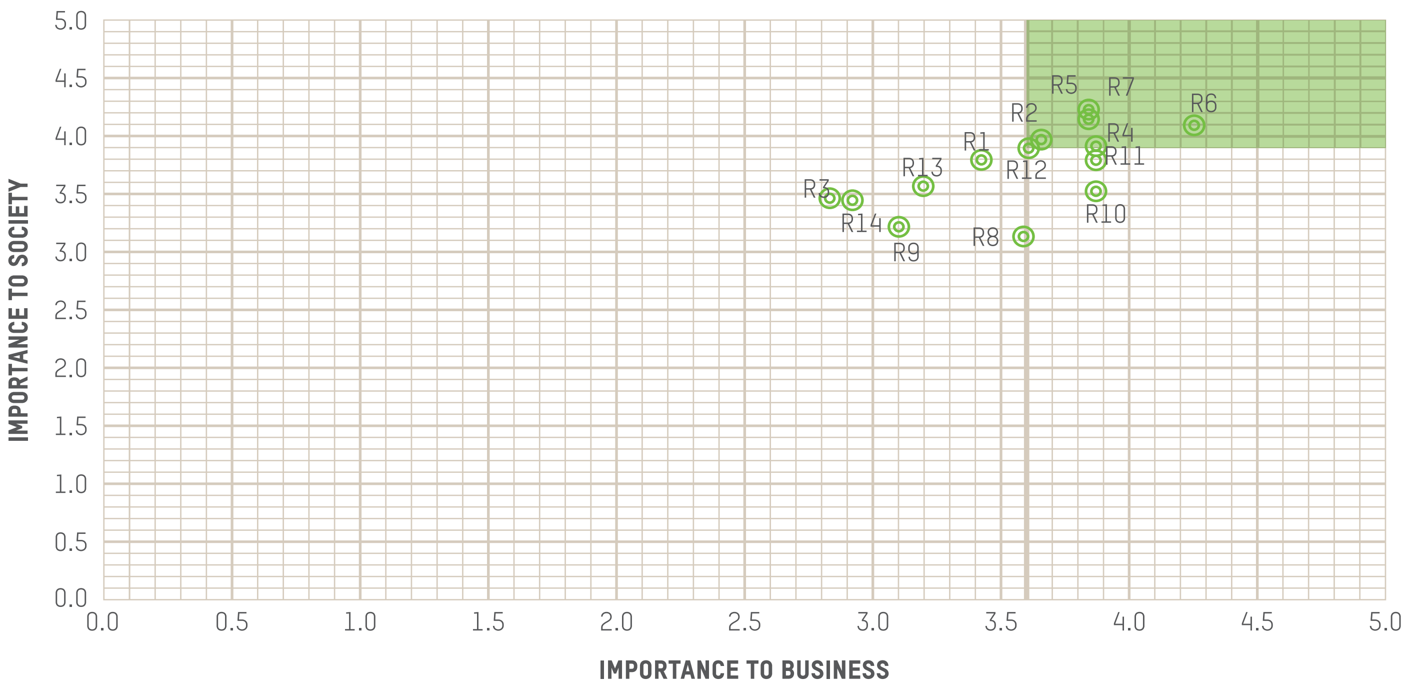


Figure 6 Prioritization matrix for identification of top social risks

It is useful to draw a comparison between global perception of social risks and the perception of Indian corporates, industry associations and civil society organizations' perception of social risks. A global survey was conducted by World Economic Forum to identify the top social risks in the world. The survey asked respondents to consider 29 global risks – categorized as societal, technological, economic, environmental or geopolitical – over a 10-year time horizon, and rate each according to their perceived likelihood of it occurring and impact if it does. The following social risks were identified as the most impactful risks:

1. Failure of climate change mitigation and adaptation
2. Weapons of mass destruction
3. Water crises
4. Large-scale involuntary migration
5. Severe energy price shock[75]

A comparison between the results of WEF global survey and the findings of this study shows that there are very few overlaps between the most important social risks at a global level and an Indian level. For instance, climate change, perceived to be the most impactful social risk at a global level, is perceived to be the fifth most important social risk according to this research. However, the rest of the social risks which are considered highly important at a global level are not perceived to be very important in India, according to the results of this research.

It is also crucial to analyse the existing status of corporate risk management towards social risks in order to map the social risk baseline for Indian corporates that can help track improvements in the future. The business perspective was gathered through surveys with few Indian corporates, which presented the following trends:

- Out of the surveyed corporates, 100% of the respondents admitted that they consider their businesses vulnerable to social and ecological risks. This shows that Indian corporates acknowledge social risks as business risks to a large extent.
- However, only 40% of the companies were found to have a holistic risk assessment tool in place addressing all the social risks mentioned in the report, while 60% of the companies were found to have a risk assessment tool only addressing some of these risks. This shows that the level of preparedness of Indian corporates to address social risks are not sufficient.
- 100% of the companies were found to have a community / stakeholder management in place, which shows a considerably high level of importance given to stakeholders and surrounding communities. This is a common trend because most of the major Indian corporates (especially the companies included in the survey) follow GRI guidelines for sustainability reporting, which put a specific focus on stakeholder engagement processes. Thus, it can be inferred that the driver for corporates to incorporate certain good practices is due

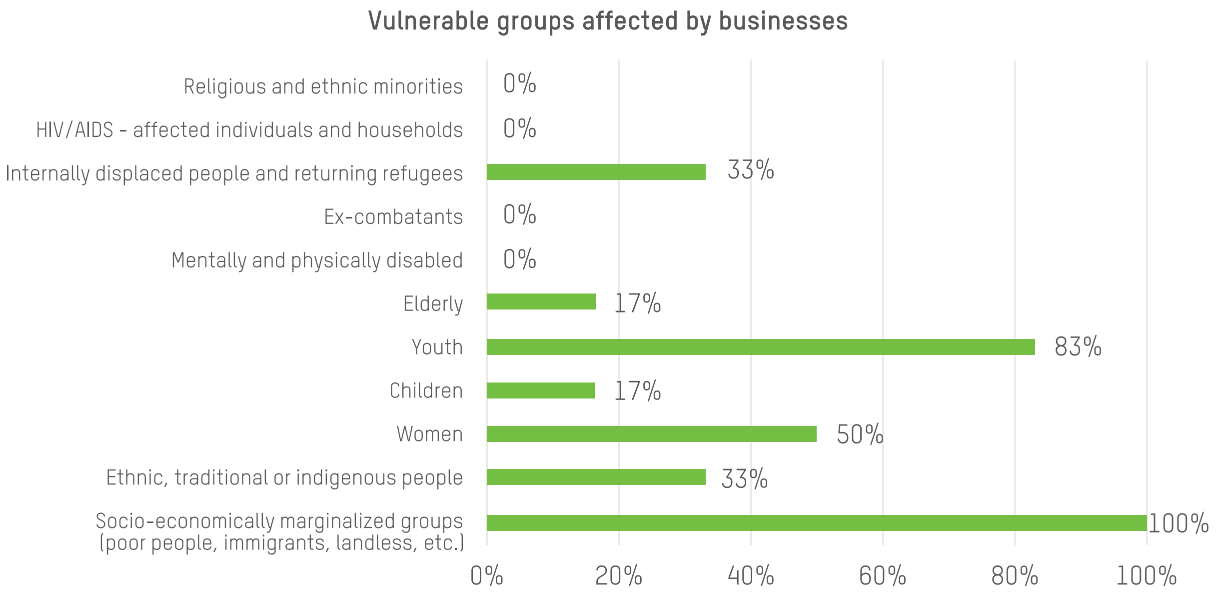


Figure 7 Corporate Perception: Vulnerable groups affected by businesses

[75]Source: http://www.weforum.org/agenda/2016/01/what-are-the-top-global-risks-for-2016

to the strong institutional framework in place in the form of GRI Guidelines, which are a globally accepted set of guidelines for sustainability reporting.[76]

- 'Socio-economically marginalized groups (poor people, immigrants, landless, etc.)' and 'Youth' were found to be the vulnerable groups most commonly affected by corporates (as shown in the figure 7). This also shows that currently, the perception of Indian corporates about the vulnerable groups they are affecting is limited to their own operations and supply chains, and does not go beyond these areas.

These trends show that Indian corporates acknowledge social risks as business risks to a large extent. However, effective management of these risks requires formalization of the processes and policies specific to social risks, to be put in place. The trends given below show that the actions taken by Indian corporates to address and manage these social risks in an effective manner, are not adequate.

Not all of the surveyed corporates were found to maintain a policy on relevant social issues listed in Section 2.3. However, almost all the respondents maintained a policy addressing some of these social issues such as respect for human rights, protection of environment, compliance with health and safety regulations, and non-discrimination & fair treatment of people, as shown in figure 8.

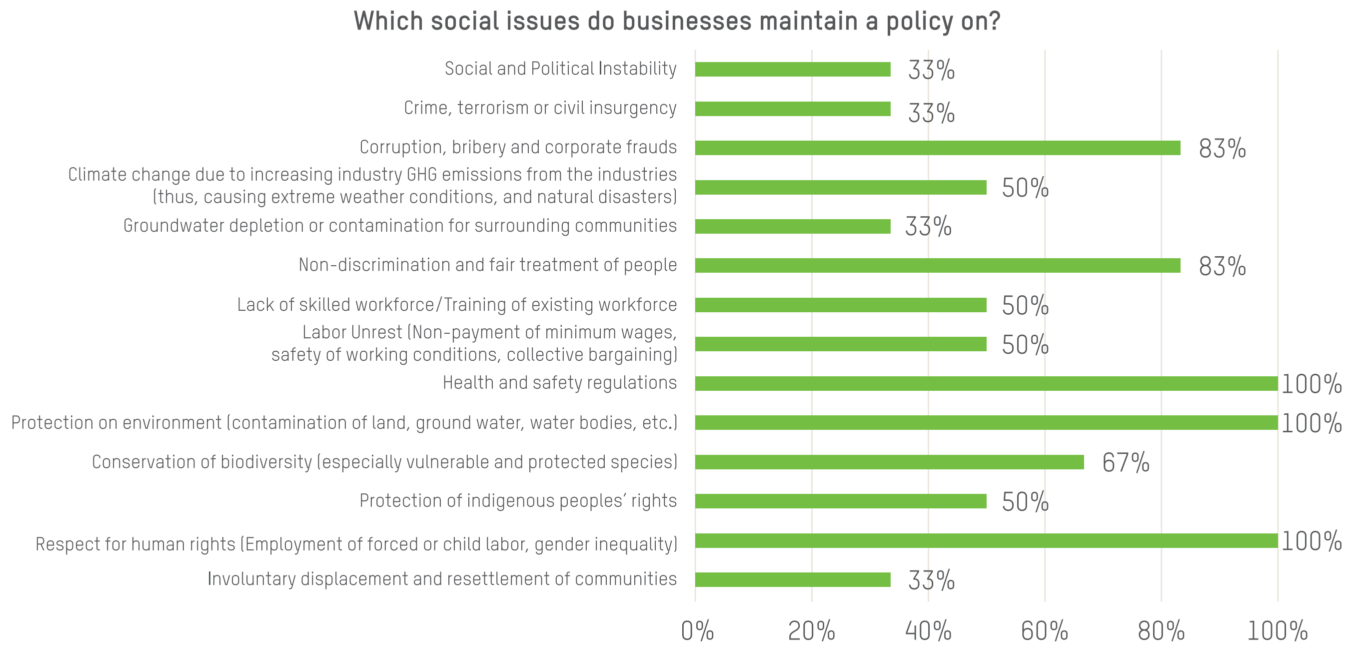


Figure 8 Corporate Perception: Policies maintained by businesses on social issues

[76]GRI Guidelines are used by reporting organizations to disclose their most critical impacts – positive or negative – on the environment, society and the economy. They can generate reliable, relevant and standardized information with which to assess opportunities and risks, and enable more informed decision-making – both within the business and among its stakeholders. Source: https://www.globalreporting.org/standards/g4/Pages/default.aspx

In order to make Indian businesses more responsible towards their social impacts, and encourage them to address and manage social risks just like any other business risks, it is essential to understand the perceived benefits and barriers from addressing social risks. The following figure 9 shows that enhancement of corporate reputation is perceived to be the largest benefit from addressing social risks.

The analysis of perceived barriers for addressing social risks is depicted in figure 10. It shows that lack of knowledge and the non-immediate business benefits from addressing social risks are the two largest barriers preventing corporates from managing social risks effectively.

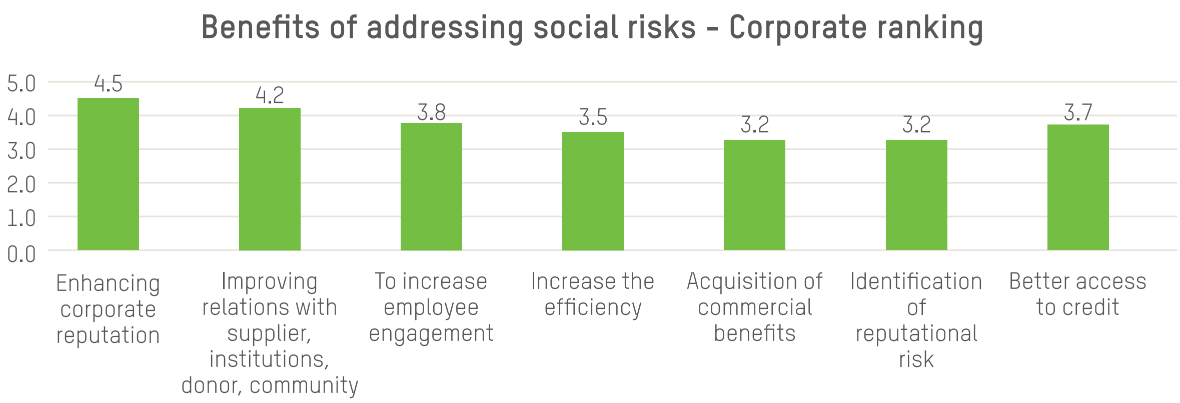


Figure 9 Corporate Perception: Benefits of addressing social risks

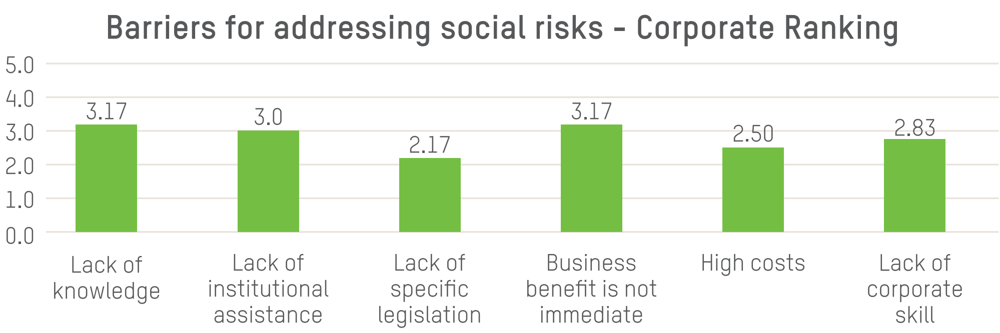


Figure 10 Corporate Perception: Barriers for addressing social risks

CONCLUSION

This study highlights the growing level of awareness amongst businesses to identify and manage social risks, in addition to conventional business risks. However, there is still a significant gap between the Indian and global perspective of what constitutes as a social risk. The regulatory framework and policy environment in India is conducive towards a nuanced understanding of business responsibility beyond corporate philanthropy. In 2011 Ministry of Corporate Affairs published the National Voluntary Guidelines for Social, Environmental and

Economical Responsibilities of Business followed by a mandate of Annual Business Responsibility Reporting mandate for the top 100 listed Indian companies by SEBI in 2013. However, this has not directly translated into a change in the attitudes of businesses towards addressing social issues as a business imperative.

An important result of this research study was that compliance to health and safety risks is considered to be the most significant social risk to businesses. This perception is largely driven by regulatory pressure to abide by the most basic health and safety requirements, and there are direct financial repercussions as well as reputational loss arising from non-compliance to these laws. This is also in line with the inference that the key driver for corporates to undertake measures to mitigate social issues is the fear of reputational loss accompanied by financial loss and regulatory pressure. Another finding which requires attention is the disconnect in the perception of social risk by civil society and businesses.

An example which captures this disconnect is the varying perception with reference to the violation of rights of indigenous people. While civil society organizations ranked it as one of the most significant social risks in India, businesses did not rank it very high. This is inspite of financial and reputation losses that businesses have historically faced in conflicts relating to rights of indigenous people, especially in the mineral rich areas. Another result from the research study suggests that the lack of technical skills for social risk management and non-immediate nature of commercial benefits are the key barriers for addressing social issues.

Based on these findings, it is recommended that policy actions must be targeted at strengthening the drivers for private sector involvement towards social development. This includes suitable capacity development initiatives to raise awareness about social risk management.

It is imperative for policy makers, private sector and civil society to collaborate in driving innovation and investing in solutions towards solving the social issues faced by the vulnerable communities in India to combat economic, environmental or governance related shocks. While government efforts are quintessential for social development, businesses must also take actions for incorporation of social risks in their business continuity planning and risk management frameworks, along with introduction of appropriate mitigation actions to abate these risks (particularly, with regard to the top social risks enlisted in Section 4). It must be acknowledged that these are not just social problems to be addressed at a policy level by the government, but these are also pertinent issues which can pose as significant risks to business performance and continuity.

ANNEXURE: EXISTING STANDARDS AND FRAMEWORKS FOR ASSESSING SOCIAL RISKS

6.1 NATIONAL VOLUNTARY GUIDELINES ON SOCIAL, ENVIRONMENTAL AND ECONOMIC RESPONSIBILITIES OF BUSINESSES

The NVGs were released by the Ministry of Corporate Affairs in 2011. It is a comprehensive set of guidelines that encompasses social, environmental and economic responsibilities of business. The Guidelines are designed to be used by all businesses irrespective of size, sector or location. The Guidelines also provide a framework for responsible business action for Indian MNCs planning to invest or already operating in other parts of the world. The Guidelines have been articulated in the form of nine Principles, which are as follows:[77]

Each of the principles has certain core elements defining responsible business practices under each principle. In August 2012, SEBI mandated inclusion of Business Responsibility Report (BRR) in line with NVGs, as a part of the Annual Report for top 100 listed entities in India.[78] The

Principle 1	Businesses should conduct and govern themselves with Ethics, Transparency and Accountability
Principle 2	Businesses should provide goods and services that are safe and contribute to sustainability throughout their life cycle
Principle 3	Businesses should promote the wellbeing of all employees
Principle 4	Businesses should respect the interests of, and be responsive towards all stakeholders, especially those who are disadvantaged, vulnerable and marginalised
Principle 5	Businesses should respect and promote human rights
Principle 6	Business should respect, protect, and make efforts to restore the environment
Principle 7	Businesses, when engaged in influencing public and regulatory policy, should do so in a responsible manner
Principle 8	Businesses should support inclusive growth and equitable development
Principle 9	Businesses should engage with and provide value to their customers and consumers in a responsible manner

Figure 11 National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Businesses

[77]Source: http://www.mca.gov.in/Ministry/latestnews/National_Voluntary_Guidelines_2011_12jul2011.pdf
[78]Source: http://www.bseindia.com/downloads1/BRR_FAQs%2010052013.pdf

mandate has been revised in 2015 to include top 500 listed companies based on their market capitalization.[79]

6.2 SIDBI'S ENVIRONMENT & SOCIAL RISK MANAGEMENT FRAMEWORK

Small Industries Development Bank of India (SIDBI) is the Principal Financial Institution for the promotion, financing and development of the Micro, Small and Medium Enterprise (MSME) sector in India, and for co-ordination of the functions of the institutions engaged in similar activities.[80]

SIDBI has developed and adopted an Environmental and Social Risk Management Framework, which is specific to the MSME industry in India. The Framework was introduced under SME Finance and Development programme through World Bank assistance. However, it is not applicable to all segments under SIDBI's investment portfolio. The applicable in country environmental regulations and policies incorporated in the Framework are aimed at internalizing the following:

(a) Waste minimization, pollution prevention, and cleaner production approaches

(b) Environmental assessment provisions

(c) Occupational health and safety aspects

The Framework also incorporates Environment, Health, and Safety Guidelines of the World Bank Group, wherever relevant. It outlines provisions for categorization of companies based on their environmental and social risks, which further determines the scope and extent of due diligence conducted for the potential borrowers.[81]

6.3 UNITED NATIONS PRINCIPLES OF RESPONSIBLE INVESTMENT

The United Nations-supported Principles for Responsible Investment (PRI) Initiative, launched in 2006, is an international network of investors working towards responsible investment, with the goal of understanding the implications of sustainability for investors and support signatories to incorporate these issues into their investment decision making and ownership practices. There are six principles set as part of the initiative based on the premise that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time). Currently, there are 1380 signatories to the PRI initiative, who apply the following six principles in their investment decisions:

Principle 1	We will incorporate ESG issues into investment analysis and decision-making processes
Principle 2	We will be active owners and incorporate ESG issues into our ownership policies and practices
Principle 3	We will seek appropriate disclosure on ESG issues by the entities in which we invest
Principle 4	We will promote acceptance and implementation of the Principles within the investment industry
Principle 5	We will work together to enhance our effectiveness in implementing the Principles
Principle 6	We will each report on our activities and progress towards implementing the Principles

Figure 12 United Nations Principles of Responsible Investment

[79]Source: http://timesofindia.indiatimes.com/business/india-business/Business-responsibility-reports-must-for-top-500-listed-companies-Sebi/articleshow/49987154.cms
[80]Source: http://www.sidbi.com/?q=about-sidbi
[81]Source: MSME GROWTH INNOVATION AND INCLUSIVE FINANCE PROJECT, Environment & Social Risk Management Framework Volume 1, SIDBI, December 31, 2014.

The Principles revolve around the commitment of companies towards ESG issues. Although there is no stringent definition of ESG issues, certain examples of ESG issues are provided by the Framework.

- Environment (E):

  Examples of environmental issues include: biodiversity loss, greenhouse gas (GHG) emissions, climate change impacts, renewable energy, energy efficiency, resource depletion, chemical pollution, waste management, depletion of fresh water, ocean acidification, stratospheric ozone depletion, changes in land use, and nitrogen and phosphorus cycles.

- Social (S):

  Examples of social issues include: activities in conflict zones, distribution of fair trade products, health and access to medicine, workplace health safety and quality, HIV/AIDS, labor standards in the supply chain, child labor, slavery, relations with local communities, human capital management, employee relations, diversity, controversial weapons, and freedom of association.

- Governance (G):

  Examples of governance issues include: executive benefits and compensation, bribery and corruption, shareholder rights, business ethics, board diversity, board structure, independent directors, risk management, whistle-blowing schemes, stakeholder dialogue, lobbying, and disclosure. This category may also include business strategy issues, both the implications of business strategy for environmental and social issues, and how the strategy is to be implemented.

  Out of these 1380 signatories, only two are Indian companies – IDFC and The Varhad Group.[82] This reflects a low level of awareness amongst Indian companies towards global responsible investment practices.

6.4 IFC PERFORMANCE STANDARDS

International Finance Corporation (IFC) is the private sector lending arm of World Bank. IFC has set certain Performance Standards, which provide guidance on how to identify risks and impacts, and are designed to help avoid, mitigate, and manage risks and impacts in a sustainable way. It also includes provisions on stakeholder engagement and disclosure obligations of the client in relation to project-level activities. There are eight Performance Standards that every client is required to meet throughout the life of

Performance Standard 1 Assessment and Management of Enviormental and Social Risks and Impacts	**Performance Standard 2** Labor and Working Conditions	**Performance Standard 3** Resource Efficiency and Pollution Prevention	**Performance Standard 4** Community helath, safety and security
Performance Standard 5 Land Acquisition and Involuntary Resettlement	**Performance Standard 6** Biodiversity Conservation and Sustainable Management of Living Natural Resources	**Performance Standard 7** Indigenous Peoples	**Performance Standard 8** Cultural heritage

Figure 13 IFC Performance Standards

[82]Source: http://www.unpri.org

an investment by IFC, to manage environmental and social risks and impacts so that development opportunities are enhanced.

IFC also takes reference from The World Bank Group Environmental, Health and Safety Guidelines (EHS Guidelines), which are used as a technical source of information during project appraisal activities. IFC Performance Standards and EHS Guidelines set a benchmark for responsible investors and financing institutions across the world, to incorporate social and environmental aspects in determining the risk profile of a company. This, in turn, encourages the businesses to incorporate these aspects into their business operations, in order to be eligible for a wider range of financing opportunities.

6.5 WORLD BANK SOCIAL SAFEGUARD POLICIES

The World Bank's social safeguard policies are a cornerstone of its support to sustainable poverty reduction. The objective of these policies is to prevent and mitigate undue harm to people in the development process. The effectiveness and development impact of projects and programs supported by the Bank has substantially increased as a result of attention to these policies. World Bank has Social Safeguard Policies around the following:

a) Indigenous People

World Bank policy on Indigenous People, underscores the need for borrowers to identify indigenous people, consult with them, ensure that they participate in and benefit from World Bank-funded operations in a culturally appropriate way and that adverse impacts on them are avoided, or where not feasible, minimized or mitigated.

b) Involuntary Resettlement

The implementation of development projects that require land may cause involuntary displacement of population who live in affected areas. The objective of World Bank's Resettlement Policy is to assist the efforts of the displaced persons to improve their livelihoods and standards, or at least to restore them to pre-displacement levels.

6.6 ADB SAFEGUARD POLICY STATEMENT

Asian Development Bank (ADB) is a regional development bank dedicated to reducing poverty in Asia and the Pacific through loans, grants and economic research. ADB developed a Safeguard policy Statement in 2009, with the goal of ensuring the social and environmental sustainability of the projects it supports. ADB assumes the responsibility of conducting due diligence and for reviewing, monitoring, and supervising projects throughout the ADB's project cycle in conformity with the principles and requirements embodied in the SPS.

ADB's SPS sets out the policy objectives and principles, primarily for three key safeguard areas:

Enviornment	Social Matter	Governance
• Protection of environemnt • Efficient use of natural resources • Greenhouse gas reduction	• Labor and Working Conditions • Health and Safety • Other social matters such as stakeholder relations and social development impact from business	• Business Integrity • Good corporate governance

Figure 15 CDC ESG Toolkit

6.7 EQUATOR PRINCIPLES

The Equator Principles, developed in 2013 is a risk management framework, adopted by financial institutions, for determining, assessing and managing environmental and social risk in projects. It is primarily intended to provide a minimum standard for due diligence to support responsible risk decision-making.

Currently, 81 Equator Principles Financial Institutions (EPFIs) in 36 countries have officially adopted the EPs, covering over 70 percent of international Project Finance debt in emerging markets. This, in turn, puts immense pressure on businesses to address the social and environmental issues covered in the framework, in order to attract finance.

According to the framework, the high risk projects for investment are projects with high potential environmental and social impacts on the following, but not limited to:

- Adverse impacts on indigenous peoples
- Critical Habitat impacts
- Significant cultural heritage impacts
- Large-scale resettlement

The principles take reference from the IFC Performance Standards, and the World Bank Group Environmental, Health and Safety Guidelines (general as well as industry specific).[83]

6.8 CDC ESG TOOLKIT

The CDC ESG Toolkit is designed for fund managers, particularly for private equity fund managers investing in the emerging markets of developing countries, primarily with the aim of exploring the business case for assessing and managing ESG risks and opportunities arising from investments. All fund managers that invest CDC's capital are required to commit to the following ESG objectives and policies:

Environmental safeguards	To ensure the environmental soundness and sustainability of projects and to support the integration of environmental considerations into the project decision-making process
Involuntary Resettlement safeguards	To avoid involuntary resettlement wherever possible; to minimize involuntary resettlement by exploring project and design alternatives; to enhance, or at least restore, the livelihoods of all displaced persons in real terms relative to pre-project levels; and to improve the standards of living of the displaced poor and other vulnerable groups.
Indigenous Peoples safeguards	To design and implement projects in a way that fosters full respect for Indigenous Peoples' identity, dignity, human rights, livelihood systems, and cultural uniqueness as defined by the Indigenous Peoples themselves so that they (a) receive culturally appropriate social and economic benefits, (b) do not suffer adverse impacts as a result of projects, and (c) can participate actively in projects that affect them

Figure 14 ADB Safeguards

The Toolkit also includes specific guidelines for fund managers on ESG considerations at each stage of the investment process, required policies and processes for adhering to the ESG requirements, guidance for rating ESG risks, and provisions on monitoring and review processes for managing the ESG performance over time.

6.9 FMO ESG TOOLKIT

FMO is a Dutch Entrepreneurial Development Bank, with the objective of creating sustainable impact in developing countries by supporting private sector businesses and boosting self-sufficiency.

FMO has developed two tools to support its clients in terms of environmental, social and governance (ESG) risk management. The tools are specifically targeted at private equity investment funds and microfinance institutions (MFIs) and small and medium enterprise (SME) banks.

The three main categories of the ESG Toolkit are (1) risk, (2) risk management and (3) opportunities. Based on a number of characteristics of investments, the tool provides an overview of the most relevant ESG risks, a score for the effectiveness of ESG risk management and the key ESG opportunities. Two type of risks are distinguished: sector risks and country issues. Some of the risks associated with investments in this way will not be entirely applicable, whereas others may not be included. On balance, however, the sector risks provide a good starting point for assessing the ESG risks of an investment.

The ESG Toolkit is based on the IFC Performance Standards (explained above) to manage social and environmental risks and impacts. The eight Performance Standards establish standards that the client is to meet throughout the life of an investment by FMO.[84]

6.10 UNITED NATIONS GUIDING PRINCIPLES ON BUSINESS AND HUMAN RIGHTS

The UNGPs are based on the Protect, Respect and Remedy Framework, which was unanimously welcomed by the UN Human Rights Council in 2008. It rests on three pillars which are mutually reinforcing and which cover preventative and remedial measures.[85]

Pillar	State	Business	Victim
Need	Protect	Respect	Remedy
Actors	Protect against human rights abuses by actors including businesses	Respect human rights throughout the value chain	Greater access to remedies in the case of human rights abuses
Action	• Policies • Legislation • Regulation • Adjudication	• Acting with due diligence • Addressing adverse impacts	• Judicial remedies • Non – judicial remedies

Figure 16 United Nations Guiding Principles on Business and Human Rights

[83] Source: http://www.equator-principles.com/
[84] Source: https://www.fmo.nl/esg-tools
[85] Source: https://www.oxfam.org/sites/www.oxfam.org/files/tb-business-human-rights-oxfam-perspective-un-guiding-principles-130613-en.pdf

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