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**SustainAbility™**

**India: Ancient Civilisation,  
Largest Democracy  
August 05**

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Source: [www.nationsonline.org/oneworld/india\\_map.html](http://www.nationsonline.org/oneworld/india_map.html)

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# 1 Introduction

The SustainAbility Series of Country Studies has been developed to provide an informed and factual tour d'horizon of the key dimensions of our four key Emerging Economies: India, China, Brazil and South Africa. The aim is to provide an informed overview of the recent history and governance for each country; its economic and trade situation; the social and environmental context; and trends in corporate responsibility, including best practice and influential civil society organizations.

Each Country Study has been reviewed by our local partners, and we would particularly like to thank our reviewers for their comments and advice with regard to this case study:

- Ritu Kumar, Director, The Energy and Resources Institute – Europe
- Viraf Mehta, Chief Executive, Partners in Change, India
- Shankar Venkateshwaran, Executive Director, America India Foundation, India

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## Global influence

India, like China (subject of a separate case study), has an increasingly influential role to play in the shifting politics, strategies and alliances that will determine the nature of globalization in years to come. As this Country Study goes to print, the political focus on India is largely to do with its emerging status as a global player economically and politically. It is being courted by America, for the strategic role it could play in balancing China's global expansion and influence. On current trends, the country's role in the future cultural, political and economic evolution of the region and beyond is set to be pivotal.

## Market reach

With over 1 billion people, India is home to 17% of the global population, and is set to overtake China as the world's most populous nation in three decades. It is also the world's largest democracy and its 12<sup>th</sup> largest economy. In Asia, its economy is third only to China and Japan. As such, it presents compelling opportunities to the globalizing world – with regard to both the market it offers, and the cost-benefits of a cheaper labour pool, often with access to good education and English language capabilities. The trend in English language jobs offshored to India is substantial and set to continue<sup>1</sup>.

## Governance and inequity

Typical to any Emerging Economy, the challenge of governance and bridging the divide between 'haves' and 'have nots' is immense. The infrastructure for government in India is weak, stretched as it is over 28 states, each with its own governance structure and each typically grappling with a legacy of vested interest and inefficiency.

The judiciary is separate from government and shows evidence of acting as an increasingly influential and modernising force. There is legislation with regard to labour rights and the environment, and there have been high profile actions such as the closure of polluting factories around the Taj Mahal. However, outdated laws and corruption inhibits the judiciary from exercising its influence. Problems of child labour persist, along

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<sup>1</sup> See SustainAbility Report, *Good Migrations? BT, Corporate Social Responsibility and the Geography of Jobs*, [www.sustainability.com/good-migrations](http://www.sustainability.com/good-migrations)

with human rights infringements, particularly with regard to caste and gender inequalities in parts of Indian society.

Water scarcity tops the list of environmental concerns followed closely by air pollution and loss of biodiversity. The 2005 floods in Mumbai are a symptom of the country's vulnerability to natural disaster following as it does from the impact of the tsunami.

### **Civil society**

India has a long tradition of a highly active civil society with about 2 million NGOs. The Bhopal disaster in 1984 doubtless contributed to the formation of a highly vigilant, vocal and networked community of activists and NGOs – competent to campaign on both the national and global stage, and sophisticated in the use of global brands to catapult local issues on to the world stage. Indian media is free and active in this right too.

### **Business and corporate responsibility**

International businesses have only been allowed to invest directly in India since 1991. Prior to that, following the country's independence in 1947 and in a determined quest for self-sufficiency, the government required all companies operating in the country to be majority owned by Indians. This resulted in many multinationals leaving the country. In the last decade, they have returned en masse.

Corporate responsibility is a complex issue in India. As home to Bhopal and the Union Carbide disaster, India continues to deal with – and learn from – the ongoing human tragedy and battle for compensation of the victims<sup>2</sup>. More recently Coca-Cola has faced high profile criticism – locally and internationally – with regard to its alleged exercise of double-standards when it comes to toxicity controls for its beverages in India compared to developed markets. It has also been criticised for the impact of its bottling plant in Kerala on the local community's access to drinking water – in a country that faces real challenges with regards to water scarcity.

National companies within India do have a long tradition of local philanthropy, springing from a 'nation-building' attitude to their role and contribution to society. Best practice case studies, including Tata Steel, Hindustan Lever (part of Unilever) and the national ICICI Bank, are available towards the end of this Study.

### **Conclusion**

From Bollywood and sporting legends, to the Hindu philosophies, tension with Pakistan and the struggle to build a post-colonial nation state, India has reached across the world to capture the imagination and consciousness of people far beyond its boundaries. In coming decades, India's influence in the world will likely be profound. The political allegiances it chooses, its economic growth strategy and the degree to which it tackles its own internal governance challenges to redress inequities will all help define its role in the modern world and future markets.

**SustainAbility hopes this Country Study provides a useful start to the business person seeking to develop an initial overview of India. Our Emerging Economies Team can provide more detailed and bespoke guidance and insight. For more information, please contact [prakash-mani@sustainability.com](mailto:prakash-mani@sustainability.com).**

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<sup>2</sup> See SustainAbility report, *The Changing Landscape of Liability: A Director's Guide to Trends in Corporate Environmental, Social and Economic Liability*, [www.sustainability.com/liability](http://www.sustainability.com/liability)

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## 2 Governance

### 2.1 History

One of the oldest civilisations of the world  
Became a democratic republic in 1947

While, the earliest evidence of humans in India can be traced back to Early Stone Age in 400,000 BC, the best known ancient civilisation in the area was in the Indus valley comprising of Harappa and Mohenjodaro and dated back to the start of the 4,000 BC.

Literature in India dates back to the Vedic Age from 1500-600 BC and was written in the form of the Vedas – religious texts that still form the basis of the Hindu religion (see Section 4.1). Other well known Indian texts like the Upanishads and mythological tales including the Ramayan and Mahabharata were also written in this period. The period marked the arrival of the Aryan tribes from Central Europe for the first time.

The next few centuries saw the establishment of different kingdoms such as the Mauryan and the Gupta empires, the arrival of Alexandra the Great on the borders of India, rise of Buddhism and Jainism, and the development of trade links with China and the Mediterranean through the Old Silk Route. The Classical Age from 300-650 AD, also referred as the Golden Age, was the time when art and architecture flourished under the Gupta dynasty – much in evidence around India even today.

The 13<sup>th</sup> Century saw the establishment of the Delhi Sultanate which among other things brought Islam to India. In the 16<sup>th</sup> Century Babur, a descendant of Timur of Turkey and Genghis Khan from Mongolia, established the Mughal Empire in India – an empire that lasted till the arrival of Britain's East India Company and the establishment of the British Raj.

Mid 1800 to mid 1900 saw the rise of the nationalist movement against the British rule. Using civil disobedience as its main weapon the 'Quit India' movement led by Mahatma Gandhi spearheaded the independence movement. India gained independence on August 15, 1947 – which also marked the bloody creation of Pakistan out of North-West and East (current Bangladesh) of India. The event marked by an exodus of Hindus moving to India and Muslims to Pakistan resulted in communal violence and the death of about half a million people.

Led by its first Prime Minister, Jawaharlal Nehru of the Congress Party, India now faced the task of bringing 562 princely states into one sovereign, socialist, secular, democratic republic.

## 2.2 Current politics

A sovereign, socialist, secular, democratic republic

Ruling party National Democratic Alliance led by the Congress Party

Today, the Congress Party led National Democratic Alliance is in power with Prime Minister Manmohan Singh at its helm. Mr. Singh is credited for kick starting the liberalisation of the Indian economy as the Finance Minister in the early 1990s. There are hopes that he will lead the country to become an economic superpower.

The main party in opposition is the Bhartiya Janata Party (BJP), which was in power from 1998 to 2004, had won the previous elections on a platform of 'hindutva' or the Hindu religion. In 2004, the BJP campaigned under the slogan of 'India Shining' based on the success of the service sector in India and the high GDP growth rate – this did not resonate with the majority of the Indian public, in the rural areas and agricultural sector, who voted them out of power.

## 2.3 Governance

Global Corruption Index 2004 (Transparency International): score 2.8 of 100, placed 90th of 146 countries<sup>1</sup>

Strong but slow legal system

With a population of more than 1 billion people, India is the world's largest democracy and general elections are generally considered free and fair. But there are still concerns about criminal connections of politicians, corruption and bribery and poor implementation of regulation. In 1996, India's Election Commission found that over 70 parliamentarians and more than 100 elected representatives in state assemblies had an alleged 'criminal background'.

Overall, **governance** in India is weak. The government is unable to provide infrastructure and services to citizens due to negligence, lack of monitoring or the influence of vested interests. Poor governance has led to inefficient and ineffective implementation of policies, waste of taxpayers' money, corruption and a reduction in citizens' welfare.

The country is politically divided into 28 states and 7 union state territories. Each of which has its own governance structure. Within the Indian state, the district is the principal subdivision and there are 476 districts in India which vary in size and population. Districts are further subdivided into *tehsils*, each of which contains 200 to 600 villages. In keeping with the idea of empowering the villages, each village governs itself through local self-government – the *Panchayat*. While the system was developed to enable self-rule at different levels, it has led to a huge bureaucracy and inefficiency, enabling corruption.

As mentioned, one of the biggest concerns in India is **corruption and bribery**. The latest Transparency International Corruption Barometer 2004 shows that Indians feel that political parties are the worst affected by corruption giving them a score of 4.5 (with 5 being extremely corrupt). The causes of corruption include the presence of a highly

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<sup>1</sup> The index defines corruption as the abuse of public office for private gain, and measures the degree to which corruption is perceived to exist among a country's public officials and politicians.

bureaucratic and multi-layered system and the financial ties between government and business. According to Transparency International corruption directly costs India \$4.8 billion.

The **press** enjoys a lot of freedom. The media have been the backbone of Indian democracy and freedom and acted as a watchdog, reporting incidents of misuse of power and corruption. The vernacular language press has wide readership and has played a crucial role in formulating public opinion. But there are reservations about media ownership and vested interests compromising journalism.

## 2.4 Judiciary

Well developed but slow legal system

Increasingly active on social and environmental issues

India has a **well developed legal system** headed by the Supreme Court and it is clearly separated from the government. The laws in place are comprehensive and complete though many of them are outdated and need to be replaced. There is also a problem of implementation and corruption. Often cases drag on for a long time and are costly affairs – discouraging many of those seeking justice to lodge a complaint.

The judiciary is increasing its **social and environmental activism** e.g. the closing down of polluting factories around the Taj Mahal. Public Interest Litigation (PIL) is also on the rise with the courts hearing more such cases. E.g. Gene Campaign filed a PIL in the Supreme Court asking that the rules pertaining to genetically modified organisms be changed to be in line with the constitutionally guaranteed rights of every citizen to life, health and a safe environment. And the Supreme Court earlier this year issued notice to the Centre on a PIL filed by the Centre for Public Interest Litigation seeking a thorough examination of the contents of soft drinks marketed by manufacturers including Pepsi and Coca Cola.

## 2.5 Civil society

Number of NGOs = approximately 2 million

Strong individual activists

India has a **long history of civil society** going all the way back to the independence movement in the 19<sup>th</sup> century. There are about 2 million NGOs in India currently. Their main focus is on the grass root level implementation of projects rather than a strategic focus on government or business. But this is changing with a number of organisations starting to work with business building on the history of corporate philanthropy.

There are very strong **individual activists** as well who define the agenda on a number of sustainability issues including Medha Patkar, Arundhati Roy, Vanadana Shiva and Sunita Narain.

Beyond NGOs and individuals, India has also seen a number of **strong and effective 'movements'**. These include the popular Chipko (embrace) Movement where villagers hugged trees to protect them from being felled resulting in state protection for Himalayan forests, women's movements which played a role in the setting up of the National

Commission for Women; the Right to Information movement, which has led to legislation at the centre and in many states that gives citizens a right to access information; and the Narmada Bachao Andolan which though not successful in stopping the building of Sardar Sarovar and other dams has made large dam projects a difficult proposition and played a significant role in the setting up of the World Commission on Dams.

India is also a strong focus for **international NGOs** with most of the large organisations having local offices and networks. These include ActionAid, Oxfam, Greenpeace, Corporate Watch and other development agencies. The World Social Forum in 2004 was organised in Mumbai and provided a great opportunity for the Indian civil society to connect with the global agenda and network with international organisations.

The **main focus** of most NGOs is rural development, improvement of urban infrastructure and civil amenities or participation in the governments programme especially around health and environment. Major campaigns have recently been around the construction of the Narmada dams, genetic modification of crops, pesticide in water and drinks and air pollution in cities.

Indian NGOs have always been **anti-multinational companies** (MNC) and in favour of *swadesh*' (home grown / made) goods. This move has gained new focus with the growing organisation and recognition of the NGOs in India and the focus on corporate irresponsibility – both MNC and national companies – has increased. Current campaigns include one on Coca Cola and Pepsi for providing products of lesser quality and safety compared to products in Europe and the US and another on an Indian mining company, Vedanta Sterlite, for displacing *adivasis* (indigenous people) in Orissa to clear way for a bauxite mine.

**Business engagement** with NGOs has largely been through the trusts and foundations that companies set up. There are over 200,000 private sectors trusts in India – the majority of them have been set up by business and focus on mainly on health and education. (See Section 6.5)

Recognising the need to build trust and credibility with the public, many NGOs in India have come together to form the **Credibility Alliance**. The Alliance aims to enhance the accountability and transparency in the voluntary sector through good governance. It is developing norms to enable self-regulation as well as an Accreditation System based on the norms.

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## 3 Economics

### 3.1 General characteristics

National currency is Rupees (Rs.) Current exchange rate: \$1 = Rs. 43.5 (6 June 05)

Gross Domestic Product (GDP) (2003) = US \$603 billion

GDP growth (2003) = 6.4%

Inflation (12-month average in 2003) = 3.2%

India is the **12<sup>th</sup> largest economy in the world** and the third largest in Asia after Japan and China. Despite its size, India accounts for less than 2% of global GDP and 1% of world trade.

Post independence in 1947 India chose the path of self sufficiency and required all companies operating in India to be majority owned by Indians. This resulted in many multinational companies leaving the country. As a result there was very little foreign direct investment (FDI), few international brands and minimal imports. The public sector played a very big role in all sectors and dominated business.

In 1991 India started the process of **opening its markets** to foreign companies and capital, reducing corporate tax and import duties, and also privatising a number of its public sector holdings. The current Prime Minister instituted this in the capacity of the finance minister in 1992. This has resulted in a large number of companies entering the market attracted by the size of the Indian market (India has a middle class of about 320 to 340 million people) and the low cost base of production. Even so business continues to be dominated by big Indian companies.

The World Economic Forum (WEF) survey<sup>2</sup> ranks India 55 out of 104 countries on the Growth Competitiveness Index, which gauges an economy's ability to achieve sustained growth over the medium to long term. On WEF's Business Competitiveness Ranking which assesses the microeconomic factors that contribute to economic growth India was ranked 30 out of 103 countries.

**Agriculture** still employs the most number of people (63%) but the service sector contributes most to the GDP at about 51%. Agriculture contributes about 22% to the GDP with the industry contribution at 27%.

The **service sector** has particularly grown in recent years with the growing international trend of offshoring call centres and information technology to India (among other countries). It currently employs 0.5 million people (expected to increase to 1 million by 2008) in the IT and IT enabled services and contributes 3.15% to the India GDP. Revenues from IT industry are expected to cross \$20 billion in 2004-2005.

Overall, while economic growth is on the rise it is constrained by factors including:

- inadequate infrastructure – cited as being one of the main barriers for growth and expansion for Indian business

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<sup>2</sup>[www.weforum.org/site/homepublic.nsf/Content/Global+Competitiveness+Programme%5CGlobal+Competitiveness+Report](http://www.weforum.org/site/homepublic.nsf/Content/Global+Competitiveness+Programme%5CGlobal+Competitiveness+Report)

- cumbersome bureaucracy and corruption – adding cost and time
- labour market rigidities – which makes downsizing difficult
- a cumbersome tax structure
- regulatory and foreign investment controls
- environmental resource constraints

In general, costs of resource use, environmental degradation and community disruption are neither paid by those who incur them nor are reflected in actual prices.

### 3.2 Trade

India FDI (2003) = \$4.3 billion

Exports of goods and services (2003) = \$90.6 billion

Imports of goods and services (2003) = \$96.6 billion

Since the deregulation of the market in 1991, **India's foreign trade has increased dramatically**. India is considered the third best FDI destination after China and the US according to A T Kearney's FDI Confidence Index 2004<sup>3</sup>. Indian FDI flows are currently \$4.3 billion, a majority of which is concentrated in information and technology areas. The FDI flowing into India is expected to increase to \$15 billion in 2004-05.

While currently, the US is the largest trading and investment partner with India, it is expected that China will soon take over the mantle from the US and the trading relationship between India and China will improve. Other key trading partners include the European Union, Russia and Japan.

**Current exports** from India mainly comprise of software exports (\$12.5 billion), agricultural products such as tea, engineering goods, precious stones, cotton apparel and fabrics. **Imports** comprise of petroleum, machinery and transport equipment, electronic components and edible oils.

The export of IT and IT Enabled Services (ITES) has not been without controversy and American and European companies outsourcing work to India have come under pressure from the regulators and trade unions in their countries not to export jobs. But given the competitive advantage for companies and the positive impact on the Indian economy this trend is likely to grow.

India is a member of the Association of Southeast Asian Nations (ASEAN) and is seeking to increase its trade relations in the region. Its current level of trade stands at \$12 billion and is expected to increase to \$30 billion by 2007.<sup>4</sup>

India has also played a very active role in the negotiation with the **World Trade Organisation**. In the WTO talks in Cancun in 2003, India came together with Brazil, South Africa and other developing countries to form the G20 group of countries and protest against the agricultural subsidies in the US and Europe that skew the agriculture commodity market against developing countries. This has had a tremendous impact on

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<sup>3</sup> Press Information Bureau, Government of India, 27 July 2005, <http://pib.nic.in/release/release.asp?relid=10520>

<sup>4</sup> <http://www.ieport.com/daily-news/20041130103436.html> 11 November 04

the Doha Development Agenda and has pressured the US and Europe to consider changing some of their policies. India is seeking to extend the negotiations to non-agricultural and services market access as well. The next Ministerial Conference of the WTO scheduled in Hong Kong in December 2005 should see high level discussions on these topics.

### 3.3 Business

Large public sector and small and medium sized enterprises  
Dominant local companies

Business in Asia is seen in many ways to differ from business in the west with Eastern Capitalism seen to be based more on trust and reciprocity and family values.

The **state and public sector** still plays a very large role in the business sector employing about 19 million people in 2001. Sectors like power, water, roads and rails are still run by the public sector. The government is also involved in air transport, tourism and construction. Sectors like air transport are being opened out with domestic carriers being allowed to service international routes.

In the private sector, **family owned conglomerates** own a majority of businesses in India (about 50-60% of share capital of listed companies) such as the Tata Group, the Aditya Birla Group, and the Reliance Group. This also constitutes one of the biggest corporate governance challenges in India with no clear differentiation between ownership and management and with less than desirable transparency in the accounting for different companies within the group. Institutional investors and general shareholders do not play much of a role in holding companies to account.

Most **multinational companies** operate in India in various forms – either directly or through partnerships – especially in the consumer goods sector. More companies are continuously entering the market e.g. the recent announcement by Holcim to enter the market through partnership with some of the biggest local players.

A majority of businesses in India are still **small and medium scale** (approximately 3.5 million companies in 2002-03 according to the Confederation of Indian Industry) employing about 20 million people and revenues of \$175 billion.

Organised business overall accounts for a small proportion of employment with the majority of employment (90%) being provided by the **informal business sector**.

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## 4 Social Context

### 4.1 Overview

Population (2003) = 1.05 billion

Population growth (1997-2003) = 1.6%

India is home to **1.05 billion people** or 17% of the entire world population on only 2.4% of the global land mass. Currently second only to China in population terms, in 30 years it is predicted to become the world's most populous nation.

The sheer number of people and the rate of growth at 1.6% are considered to be one of the biggest sustainability challenges facing the country.

India is composed of a **complex mix** of social, religious and ethnic influences given the arrival of different ethnic groups through its history. The Constitution recognises 18 languages and there are numerous dialects. The official language is Hindi though the Indian constitution has declared that English can also be used for official purposes (and State languages can be used in State Legislature). English continues to be the language of business – a key strength as India competes globally.

Hinduism is the most predominant **religion** with 81.3% following, followed by Islam (12%), Christianity (2.3%), Sikhism (1.9%), Buddhism, Zoroastrianism and Jainism. Hinduism has evolved over many centuries with no particular founder or prophet. It dictates a way of life and the responsibility, or *dharma*, of people. It has over 300 gods and goddess representing different beliefs and practices.

The **caste system** in India originated 3,500 years ago with the aim to organise Indian (Hindu) society based on people's occupations e.g. traders or artisans, and is detailed in the Manusmriti – the book that details Hindu law. There are four main castes – Brahmins (priests and thinkers), the Kshatriya (warriors), the Vaishyas (traders) and the Shudra (artisans). Those that don't fall in these four categories are the Dalits (oppressed / untouchables). There are also a number of sub-castes within the castes.

The rise of different religions in India can be linked to the caste system. Many lower caste Hindus chose to change to Christianity, Islam or Buddhism / Jainism as a way to escape the discrimination they faced.

The caste system has evolved to become the basis of social hierarchies and discrimination and presents a key sustainability challenge for the country as 'lower' castes can directly be correlated with lower development. The Constitution of India prohibits discrimination on caste but societal norms are difficult to leave aside. Recent economic development has been critical in removing some of these disparities through allowing greater access to work opportunities. There are a number of institutions and jobs that have seats reserved for the scheduled (listed) castes and tribes – this again is a bone of contention for the people that do not benefit from this reservation.

During the independence struggle and directly after it, the icons of India used to be the freedom fighters and political figures including Mahatma Gandhi and Jawaharlal Nehru.

Since then the India population has moved on to Bollywood stars and cricketers – the new, successful faces of India. Bollywood, the Indian version of Hollywood, produces about 800 films a year and have a viewership of about 14 million Indians a day.

Cricket is a national passion with the performance of the Indian cricket team having the ability to move consumer confidence and hence the stock market!

## 4.2 Poverty and income inequalities

Human Development Index 2004 rank = 127 of 177 countries

Population living under the national poverty line (2003) = 29%

India ranks 127 out of 177 countries in the UN Human Development Index 2004 which takes into account income, education and literacy.

**Poverty** is the single biggest issue for the country to deal with especially with a growing population. Currently 34.7% of the population lives in absolute poverty on less that \$1 / day. 250 million (29%) people live below the national poverty line (based on household consumer expenditure). Poverty is prevalent both as urban poverty depicted in the number of slums and homeless in the large cities – many of whom come from rural areas looking for jobs – as well as rural poverty.

**Income disparity** in India is one of the highest in the world with a Gini Coefficient of 0.325 (World Development Report 2004)<sup>5</sup> with the richest 20% of the population accounting for 41.6% of the income and the poorest 20% for 8.9% of income.

The link to the **growing population** is obvious with the jobs and resources available being unable to support the growing population (see Section 4.3 below). But it is also important to appreciate the backward link between economic opportunity and population. Inequality, social exclusion (e.g. based on caste, gender and disability) and lack of access to education and health are the root causes of poverty. They are also a cause of population growth as families choose to have more children to ensure that some of them survive and to increase the number of earning members of the family. It is a vicious circle that needs to be broken.

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<sup>5</sup> The Gini coefficient is a number between 0 and 1, where 0 corresponds with perfect equality (where everyone has the same income) and 1 corresponds with perfect inequality (where one person has all the income, and everyone else has zero income).

### 4.3 Employment levels

Unemployment (2003) = 27 million

Unemployment rate (2003) = 7%

India's labour force is growing at a rate of 2.5% annually, but employment is growing at only 2.3%. The country faces the challenge of not only having to absorb new entrants in to the job market (estimated at 7 million people every year), but also clearing the backlog.

The largest sector employing people in India is the **agricultural sector** employing about 63% of the population. The pressure on the land, decreasing productivity levels as well as the large population that needs to be supported is putting tremendous pressure on the sector.

More than 90% of the labour force is employed in the '**unorganised sector**', i.e. sectors which don't provide social security and other employment benefits. Of this 30% of the work force is casual labour with no job security.

Only about 10% are regular employees, of which two-fifths are employed by the public sector (approximately 19 million people).

### 4.4 Food security

Surplus foodgrain production

20% population facing chronic food insecurity

In the 1990s India achieved national food security which in theory meant that there was sufficient food available at the national level to cover the minimum food requirements of all Indians. But despite mounting foodgrain stocks India faces endemic mass-hunger. The foodgrain stocks available with the Food Corporation of India (FCI) stood at an all time high of 62 million tonnes in 2002 against an annual requirement of around 20 million tonnes for ensuring food security. Still, an estimated 200 million people are underfed and 50 million on the brink of starvation. The main causes are faulty policies and implementation bottlenecks e.g. the public distribution system (PDS) which is inefficient and usually distributes low quality products at high prices.

### 4.5 Health

Average life expectancy (HDI, 2002) = 63.9

Infant mortality (HDI 2002) = 65 per 1000

While the general health statistics of the country are improving, with average life expectancy at birth going up from 50 years to 63.9 and the infant mortality rate decreasing by half, challenges remain. More than half the children under the age of four are malnourished and 30% of newborns are significantly underweight.

The specific health challenges facing the country include:

- **Preventable diseases:** Although declining, largely preventable diseases such as leprosy, tuberculosis, cataract blindness, and malaria continue to account for 50% of reported illness, and around 470 deaths per 100,000.
- **HIV/AIDS:** According to UNAIDS, 5.1 million Indians are infected with HIV/AIDS. While this is less than 1% of the country's population, India has the second highest number of people living with HIV/AIDS in the world after South Africa. India accounts for almost 10% of the 40 million infected people globally. The Union Budget for 2004-05 allotted Rs. 259 crores for prevention and control of HIV/AIDS. The main challenges in dealing with the epidemic are low awareness and social norms around sexual behaviour.

HIV/AIDS is concentrated to certain groups such as commercial sex workers, injecting drug users, and truck drivers. However, there is data suggesting that the epidemic is moving from these groups into the general population and also from urban to rural districts.

The Indian government has announced the formation of a National Council on HIV/AIDS, with the Prime Minister as its chairperson, with the aim to advise, guide and provide directions to the National AIDS Control Organisation, enable the various Ministries to incorporate HIV/AIDS control as part of their work plans and help scale up the capabilities of industry and others in controlling the disease.

- **Obesity and diabetes:** Even though India is home to half of all undernourished people in the world, 55% of urban women and 29% of urban men between 20 and 69 years old are overweight. This puts them at greater risk for obesity-related illnesses like heart disease, cancer, hypertension and diabetes. The World Health Organisation forecasts that the number of diabetes sufferers in India will increase from 32.7 million to about 50 million by 2030.
- **Food contamination:** Food safety is a major issue in India, where government tests have found that at least 50% of food and drink products on the market contain some form of contamination. Pesticide contamination is the most common form and is a particular focus for NGOs in India which are currently campaigning against Coca Cola and Pepsi for the presence of pesticide in their products – the companies maintain that the presence of pesticide comes from the water and sugar they use. This raises the need for the government to develop standards and testing methods for ascertaining safety standards of the entire food supply chain.

While India has a **public health system**, it is unable to provide healthcare for the majority of Indians. In 1990, India spent 1.3% of their GDP on public health services while in 2002 that figure had diminished to 0.9%. Those that can afford it, use private healthcare resulting in a substantial increase in private practice among doctors and new clinics being set up. In the 2004-05 Budget, the government has laid out plans to develop a Universal Health Insurance Scheme exclusively for those below the poverty line.

#### 4.6 Education

Adult literacy (15+ years, HDI 2002) = 65.38%

Primary enrolment in 2002 = 76%

India has the second **largest education system after China** and has invested a lot in primary and advanced education since independence especially in the field on engineering and medical sciences.

While there is 65.38% **adult literacy** in India, issues remain around the education of women with men (75%) being more literate than women (54%). Only 43.6% of girls are enrolled in primary school and of these only 40% go on to middle school. (See Section 4.6 below)

Education levels also remain low for **rural areas**. Primary level education is provided free by the state government. However, the opportunity to go to school is not the same for everyone. The schools are dependent on funding from sources such as government, local bodies and private finances creating vast differences in facilities ranging from adequate buildings to use of technology. (See Section 6.5)

Overall **public expenditure** on education was 4% in 2002 and Rs. 4,000-5,000 crores (approximately \$114 million) was budgeted in the 2004-05 Union Budget. In the 2005 Union Budget the government has allocated Rs. 7,156 crore to a primary education fund. The last decade has also seen the increasing withdrawal of the State from higher education.

#### 4.7 Labour rights

Prevalence of child labour

Lax enforcement of labour laws

The **Factories Act** regulates the working conditions in factories and ensures minimum standards of safety, health and welfare conditions of factory workers. The act also regulates the working hours, leave, holiday, overtime and employment of children, women and young persons. But despite strong labour laws and the presence of trade unions (especially in the large industrial operations and the public sector), incidence of labour right abuses in India are to be found. This is mainly due to lack of enforcement which is done at state level by Labour Inspectors who are under-resourced and susceptible to corruption.

Another concern is that the majority of people (about 85%) are employed by the informal sector as casual labour (or contract labour). This sector is not well regulated and as a result employees are highly exploited.

The **major concerns** in India are to do with wage payments; working conditions; working hours; discrimination; and security for health, safety and housing.

While **wages** are determined based on the Minimum Wages Act of 1948 (and companies tend to adhere to it) in many cases the minimum wage does not meet cost of living.

**Freedom of association** is generally respected but in the more informal sector economy union organisation and membership are rare.

**Child labour** is prevalent though the Child Labour Act of 1986 prohibits the employment of children who have not completed their 14<sup>th</sup> year in specific hazardous occupations and processes. According to Free the Children, India has between 70-80 million child labourers. Some industries, such as gem jewellery, carpets, brass artwork, handlooms and teas particularly employ child labour. A number of initiatives are in place to tackle the problem of child labour especially in the garments and footwear industry – a big reason being international pressure – such as supplier guidelines being developed by buyers and factory audits increasingly being conducted.

#### 4.8 Human rights

Discrimination against women

Discrimination based on caste and colour

**Women** in India are particularly discriminated. The adverse sex ratio of women to men in India (927 to 1000) and gender inequality issues make women particularly vulnerable in India. According to ActionAid, the discrimination is manifested in female foeticide, infanticide, chronic neglect of the girl child, unequal wages, lack of access and control over resources, increasing violence and crime towards women.

As mentioned earlier, there is also evidence of **discrimination based on caste and colour**. The Constitution of India enshrines equal opportunity and no discrimination on the basis of religion, race, caste, sex, and place of birth – and this applies for companies as well as any other institution.

#### 4.9 International Treaties

India has so far ratified 39 ILO conventions, including four of the eight core conventions. Some of the major international treaties ratified / signed by India are:

Treaties	Current Status
International convention on the prevention and punishment of the crime of genocide	Ratified
International convention on the elimination of all forms of racial discrimination	Ratified
UN Declaration on Human Rights	Ratified
International covenant on civil and political rights	Ratified
International covenant on economic, social and cultural rights	Ratified
Convention on the elimination of all forms of discrimination against women	Ratified
Convention against torture and other cruel, inhuman or degrading treatment or punishment	Signed but not ratified
Convention of the rights of the child	Ratified
Elimination of forced and compulsory labour	Ratified
Elimination of discrimination in respect of employment and occupation	Ratified
Right to organise and collective bargaining	Ratified

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## 5 Environment

### 5.1 Overview

Diversified environment

Immense strain from growing population

Even though India accounts for only 2.4% of the global land mass, its environment is very diversified – ranging from the Himalayan range in the north to the coastal regions in the south, and encompassing the great plains of the Indus and Ganga basins, the desert and rich forest land.

The growing population is placing immense strain on the environment and causing some critical concerns. Given the dependence of the economy on agriculture and in turn the monsoon, water concerns top the list. Other key issues are industrial pollution, air quality and deforestation. India also has its share of natural disasters such as floods and droughts.

Environmental activism and awareness increased significantly in India following the Bhopal disaster in 1984, where more than 3,000 people died from a toxic leak from a chemical plant.

### 5.2 Environmental regulations

Highly regulated

Lax implementation

Environmental protection is regulated by **domestic laws and international commitments**. In 1986 the Environmental Protection Act was passed in India creating the Ministry of Environment and Forests (MoEF) which has overall responsibility for administering and enforcing environmental laws and policies. The Environment Protection Act aims to ensure the protection and continuous improvement of the environment by controlling and preventing environmental pollution. It prescribes guidelines and rules on the quality standards of air, water and soil for different areas and the maximum levels of emission, to which industries must adhere.

The MoEF has drafted a **National Environment Policy 2004** to provide a comprehensive environment policy for India with the objective to conserve resources, ensure inter- and intra-generational equity, increase efficiency and improve governance. It covers a range of areas including forest and wildlife protection, biodiversity and natural heritage, freshwater, pollution abatement and climate change. The policy has been made available for comments by stakeholder who have welcomed it but feel that there it is weak and contains loopholes.

The MoEF has also recently simplified the environmental clearance process which is felt to have diluted the country's environmental regulation. It has raised the floor of the investment limit that necessitates clearance resulting in many new projects being able to stay off the radar screen. While the simplification seems aimed at facilitating industries, it is likely to result in further erosion of the environment in India.

The **Central Pollution Control Board** advises the government on policy and technology with regard to prevention and control of water and air pollution and improvement of the quality of air.

The **Supreme Court of India** is considered as one of the most environmentally conscious courts in the world. It has widened the scope of the 'right to life' (Article 21) enshrined in the constitution to include the right to live in a healthy environment including access to clean air and water. It has gone so far as to make the protection of natural environment and compassion for living creatures a fundamental duty of every citizen.

But the problem is not with the laws but the implementation which is undermined by an absence of co-ordinated government efforts and the lack of enforcement at the local level.

### 5.3 Water

Percentage of population with access to sanitation (2000) = 28%

Percentage of population with access to improved water sources (2000) = 84%

Water is a critical issue for Indians – the high dependence on the monsoon as a largely agrarian society, the lack of access to clean water and sanitation, loss of traditional ways of water harvesting are all topics of continuing conversations. With an average annual rainfall of 1,170 mm, India is one of the wettest countries in the world – but the issue is the uneven distribution of the rainwater resulting in floods and droughts. India also has 14 major river systems – but currently they are all heavily polluted.

India is expected to be **water stressed** by 2005 according to the UNEP and some regions are already facing water stress. Access to fresh water is expected to reduce from current 70% to 45% by 2025. Over 400 million people have no access to piped water for drinking or adequate sanitation. Access to an improved water source in urban areas was 95% in 2000 compared to 79% in rural areas.

Linked to the lack of clean water are issues of **sanitation and disease**. More than 700 million people in India have no sanitation in their houses. It is estimated that about 1.5 million children under the age of five die every year from water-borne diseases, and also that the country loses over 200 million workers annually due to these diseases.

Some of the main reasons for the **water crisis** are:

- Increasing use by industry and agriculture: Estimated fresh water use by industry is 6 - 8% with agriculture accounting for the bulk of the use at about 80%. Excessive pumping of water is leading to land subsidence and water pollution.
- Pollution of water: It is estimated that 90% of India's water resources are contaminated by domestic and industrial waste and increased pesticide use.
- Dams: Projects to build dams e.g. on the Narmada and Tehri rivers, have come under severe criticism due to their impacts on the natural environment and displacement of people.

- Deforestation: As discussed in the next section, deforestation has led to soil erosion, decrease in rainfall and accelerated desertification.

There are currently strong movements country-wide to develop **rain water harvesting** methods in urban as well as rural areas and to create greater awareness of water concerns. Traditionally, water in India has been community owned property and the current move to privatise water services is not going down well with people.

In the 2005-06 budget the government has committed to providing drinking water for all especially uncovered rural populations and expanding water harvesting, watershed development, and irrigation systems. The National Water Development Agency is also proposing an ambitious project linking the major rivers in the country to allow for more equitable distribution of water. This has been severely criticised on grounds of the infeasibility of the scheme and the environmental and social impact of the proposal.

#### 5.4 Air pollution

Three of the ten most polluted cities in the world are in India  
Share of world CO2 emissions (2000) = 4.4%

India's poor air quality is fundamentally **linked to industrialisation and urbanisation** especially vehicular emissions and untreated industrial smoke. India alone has three of the world's ten most polluted cities: Delhi, Mumbai and Chennai. For the millions of Indians who live in the cities, pollution is a grave health risk as well as a danger to the environment. Of the 3 million premature deaths in the world occurring each year due to out door and indoor air pollution, the highest number is in India.

NGOs such as Centre for Science and Environment have campaigned for and persuaded the Indian Supreme Court to rule that all public transport in Delhi should be run on compressed natural gas (CNG). This has resulted in a marked improvement in the air quality in New Delhi. Other cities including Mumbai, Bangalore and Hyderabad are also looking to switch to CNG but are currently constrained by the availability and distribution of CNG.

The government has also set norms for **auto pollution** to improve air quality, the Bharat Stages, based on the Euro norms. There are four Stages of the Indian norms – Bharat I to IV. Currently, Bharat III is being applied (which is more or less equivalent to the Euro III norm from Europe). These are first applied in metro cities with the aim to roll them out to other areas.

One significant cause of pollution is **energy production**. There is a heavy dependence on coal for energy (51%) with 81.7% electricity being generated using fossil fuel.

**Carbon emissions** by India rank fifth in the world behind the US, China, Russia and Japan. Although India figures among the top 10 contributors to greenhouse gas emissions, its relative share is low in terms of per capita emissions. The current gross emission per capita in India is one-sixth of the world average. India is vulnerable to climate change impact as its economy is heavily reliant on climate-sensitive sectors like agriculture and forestry, and its low-lying densely populated coastline is threatened by a

potential rise in sea level while in the Himalayan region and mountainous areas there are signs of melting glaciers.

India is a signatory to the **Kyoto Protocol** but as a developing country it is not required to take any action currently. It will benefit from the Clean Development Mechanisms and transfer of clean technology that is facilitated by the Protocol.

### 5.5 Biodiversity

Annual Forest Rate of Change (1990-2000) = 0.1%<sup>6</sup>

Threatened species (2003) = 88 animals, 72 bird species, 25 reptiles, 3 amphibian, 9 fish<sup>7</sup>

India has a rich diversity of flora and fauna that spans numerous geographic zones from the Himalayas to the Indian Ocean. But recent years have seen deforestation and endangering of species.

- **Deforestation:** The Indian National Forest Policy 1988 stipulates that 33% of the total area should be under forest cover. However, according to the 1999 State of Forests Report in India, the forest cover is only 19% of the area. Mangrove forests that grow along the coast of the country and provide a unique eco-system as well as protection from the sea are also severely threatened and currently cover only 0.15% of the area.

Chopping down of trees for fuel, forest fires, clearing the forests for harvesting purposes or for mining and industrial activities are the main causes of deforestation. Deforestation is also leading to problems such as depletion of ground water, soil erosion, acute shortage of potable water and a sharp decrease in bio-diversity.

- **Endangered wildlife:** India is home to over 6.5% of the world's animal and 12.5% of plant species. But many of these are under threat from habitat destruction, over-exploitation of resources, increasing population pressure and lax environmental regulation. According to the IUCN, in 2002 88 species of animals and 72 species of birds were threatened, including the tigers, rhinos, snow leopard, river dolphins, cranes etc, along with 244 plant species.
- **Genetic modification** of crops is one of the key issues of focus for campaigners in India who are keen to save indigenous varieties of crops and fear that genetic modification will destroy these varieties and will also tilt the balance of power more strongly in the corporate, especially MNC, favour.

India signed the Convention on Biological Diversity in 1992 and in 2002 set out a Biological Diversity Act which sets procedures for seeking clearances for the access and use of the nation's biodiversity. But there are serious concerns about the ability of the act to deliver in practice and how it would engage local communities and groups.

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<sup>6</sup> Source: Food and Agriculture Organization of the U.N.: The State of the World's Forests 2003

<sup>7</sup> <http://earthtrends.wri.org/text/biodiversity-protected/country-profile-85.html>

## 5.6 Natural disasters

Highly prone to disasters

India is very prone to natural disasters. Coupled with the unpreparedness of India to deal with disaster emergencies this can have catastrophic environmental and social consequences.

As mentioned above, the unequal distribution of rain results in **floods and droughts**. The states along the Bay of Bengal are particularly vulnerable to floods as well as hurricanes and cyclones. The recent Tsunami triggered by the underwater earthquake off the coast of Sumatra is a case in point resulting in approximately 10,000 deaths and untold suffering.

India is also very prone to **earthquakes** as it is as it lies in the region where the Indo-Australian plate collides with the Eurasian plate. The Himalayan range is a result of this collision. The most damaging earthquake in India recently was in the state of Gujarat in 2001 resulting in more than 20,000 deaths.

While most of these disaster are due to natural causes and can not be prevented there is growing need to develop early warning systems and rapid disaster relief mechanisms to reduce the impact.

## 5.7 International Treaties

India has ratified the following international treaties focusing on environmental issues:

International Treaties	Current Status
Kyoto Protocol	Ratified
Montreal Protocol on Substances that Deplete the Ozone Layer	Ratified
UN Framework Convention on Climate Change	Ratified
Convention on Biodiversity	Ratified
Convention on International Trade in Endangered Species (CITES)	Ratified
Biosafety Protocol	Ratified
Basel Convention on the Control of Transboundary Movement of Hazardous Wastes and Their Disposal	Ratified
World Heritage Convention	Ratified

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## 6 Corporate Responsibility

### 6.1 Overview

Focus on philanthropy

Increasing stakeholder pressure and expectation

#### Current corporate focus

Social responsibility in India has traditionally translated to philanthropy or social investment. During the independence struggle and immediately after companies perceived a big role for themselves in '**nation building**'. Companies invested mainly in social infrastructure such as schools and hospitals especially for their own employees – in some instances creating townships around their factories. That trend has continued and companies have set up specific trusts, foundations, or NGOs to route their investment.

However, recently there has been a shift and companies are viewing their own operations from a corporate responsibility (CR) angle. In a recent survey by Partners in Change in 2003, 90% of the 404 companies surveyed saw a role for themselves in CSR.

There is also a difference in CR approaches followed by the different types of companies in India based on their business models<sup>8</sup>:

- **Industrial dynasties**, such as the Tatas, have focused on concepts of nation-building and trusteeship long before CR became a popular cause.
- **Indian companies with strong international shareholdings**, such as Hero Honda, Hindustan Lever Ltd, ITC, and Maruti Udyog, adhere to the business standards of the parent or partner.
- **Public sector enterprises**, such as BHEL (Bharat Heavy Electricals Ltd), HDFC (Housing Development Finance Corporation), NTPC (National Thermal Power Corporation), and ONGC (Oil and Natural Gas Corporation), have social obligations as part of their business despite the march of privatization.
- **Knowledge based enterprises**, such as Dr Reddy's, Infosys, Ranbaxy, and Wipro, focus less on minimizing negative impacts and more on maximizing the positive spill-over effects of corporate development.

In a survey on CR in India conducted by UNDP/British Council/CII/PWC (Ref?) the respondent companies identified major barriers to CR as 'absence of clear linkages between CR and financial success and absence of mechanisms to measure, monitor, evaluate and report impact of CR initiatives.'

The key business benefits that drive companies to undertake CR activities are brand value and reputation followed by the ability to improve community relations.

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<sup>8</sup> Ritu Kumar, '*State of CSR in India 2004: Acknowledging Progress, Prioritizing Action*', November 2004

On the other hand many companies feel that **CR is a western concept** at best and a trade barrier at worst. They do not see the business case for CR. Many companies do not understand the concept and expectations and, given their paternalistic style of operation, they are uncomfortable opening themselves to stakeholder dialogue. There is also a lack of tools and frameworks to develop, evaluate and report CR practice and performance.

An opinion poll by TERI- Europe in 2000-2001 showed that most companies have policies on labour issues, community relations and environmental practices (many of which reflect the legal requirements) but they lack comprehensive implementation and monitoring systems.

Employees are seen as being the most important stakeholder group followed by local community.

### **Increasing stakeholder pressure**

Even as companies think about their CR strategies, there is increasing pressure from stakeholder groups. As mentioned in Section 2.4, **Indian NGOs** have always been anti-corporate and now they are launching high profile campaigns against companies as well as using brands and companies to target the government on specific issues. Centre for Science and Environment's campaign against Coca Cola and Pepsi, campaign against Vedanta Sterlite's treatment of the *adivasis*, campaign against Hindustan Lever on their mercury contamination (see Section 7.3) and the ongoing protests against the introduction of GM seeds by Monsanto, etc are just some examples.

The **judiciary** is also stepping up its social and environmental activism (see Section 2.3). For example it is closing down of polluting factories around the Taj Mahal, accepting more Public Interest Litigation (PIL) petitions and acting on them e.g. Gene Campaigns petition on rules regarding genetically modified organisms and Centre for Public Interest Litigation's petition on the need to examine the soft drinks marketed by the manufacturers.

The **local communities** are also becoming very vocal against companies. The point in case is the protest by the indigenous people in the state of Orissa against the development of a bauxite mine by Utkal Alumina in which the Canadian company Alcan owns 45% stake.

Such stakeholder interest is only going to increase as India opens its borders to multinational companies and privatises more of its public sector holdings – making the environment within which companies consider their CR activities more challenging and questioning companies' license to operate.

## **6.2 Governance and management**

A key challenge

Lack of CR policies

Corporate governance is one of the key challenges facing the companies especially in the large number of family run conglomerates, state owned companies and small

businesses where there is no clarity of roles and responsibilities. Shareholders and stakeholders are more often that not in the dark about how businesses are run and decisions taken.

Given the close relation that many businesses have with **political parties** there are also concerns about internal lobbying and deal making to benefit companies. But in the context of need for development in India, the companies should be **lobbying** as well as partnering with government to develop initiatives that help in the sustainable development of the country as a whole. Companies also need to work on a sectoral, industry wide level to develop best practice, skills and frameworks on CR.

Companies that have a global focus or are subsidiaries of MNCs have a better and more transparent **governance structure**. For instance, Indian software companies that have had to compete globally for business and talent have adopted stricter disclosure standards than domestically focused Indian enterprises. One such example is Infosys Technologies.

In terms of **policies and principles**, very few Indian companies have clear policies on CR including on critical issues like HIV/AIDS, child labour, environment, discrimination and sexual harassment. According to the Partners in Change survey in 2003, 17% of the respondent companies had CR policies, with public sector units most likely to have policies. These policies are likely to be on environmental impacts (84%), followed by labour standards and donating money to social causes (both at 76%).

There is a need to integrate CR into overall **business management** across functions, getting buy-in from all levels of the company and developing clear processes for delivering on commitments and monitoring progress.

**Environmental and social management standards** are gaining favour in India. As of September 2004, 879 Indian companies were ISO 14000 certified for environmental standards and as of October 2004, 65 companies had SA8000 certification for workplace standards. With the increasing spread of the UN Global Compact, 95 Indian companies have signed up to its ten principles on human rights, labour standards, environment and corruption but only one, Atlas Cycles, has reported on its progress.

### 6.3 Accountability and transparency

Very few CR reports

No stakeholder pressure

While some companies are starting to report on their CR efforts, this trend limited to a hand full of companies. According to the Global Reporting Initiative about five companies in India produce **sustainability reports** including Ford India and Dr. Reddy's. But this is a growing trend with companies like ITC also starting to put out reports (see Section 7.3). One of the best examples of reporting in India is Tata Steel which produces a comprehensive report on its economic, social and environmental impacts. Ford India is probably the only MNC subsidiary to produce a report focused on India and hopes to produce another one soon.

TERI-Europe's 2001 survey shows that there is limited evidence of social and environmental auditing and reporting.

#### 6.4 Economic impacts

Focus on community skills development

Investors still not paying attention

**Philanthropic giving** is the main focus of CR activities in India. This is discussed in more detail in the next section 6.5 and the best practice case studies in Section 7 provide more examples.

An interesting aspect of philanthropic giving and economic impacts covered by companies currently is helping develop local skills and capacities of different segments of society or developing '**sustainable livelihoods**'. This ranges from Hindustan Lever's Shakti program (see Section 7.2) where it teaches rural women basic business management skills and engages them in its sales network, to the Taj Group of Hotels partnering with an NGO, Katha-Khazaana, to help women from slums develop baking and catering skills.

Another area of economic impact is the provision of **micro-credit**. Many of the banks in India including local banks such as ICICI and NABARD as well as international banks such as Citigroup and ABN Amro are lending to micro-credit organisations which in turn lend to individuals and self-help groups. Currently about 5% of the banking systems' credit goes to micro-credit.

Currently there are **no socially responsible investment funds** in India. The TERI-Europe survey also shows that few respondents believe that institutional investors (39%) and lenders and retail investors (20%) incorporate CR performance in their decisions regarding a company.

YES Bank is the latest player in the banking sector in India and includes in its vision a commitment to all stakeholders – 'To be a long term partner with all stakeholders and to create & share values which go beyond the financial services domain'. YES Bank is also exploring the field of socially responsible investing.

#### 6.5 Social and community development

Community development a key focus

Labour practices receiving some attention

In some social dimensions, many Indian companies are **ahead of international practice**. For instance, employee care in India goes far beyond typical conventions in the absence of a government funded safety net or benefit scheme. For example the townships set up by large conglomerates like the Tata Group includes the provision of housing, water, electricity, medical care and education. (Also see Section 7.1)

With increasing scrutiny of **labour practices and working conditions** by international buyers, a number of Indian suppliers are starting to pay attention to these aspects. For example, BT requires all its suppliers to conform to its Ethical Sourcing Policy that lays

out clear guidelines on labour issues. Many companies are also putting in place 'spot checks' along with the more established mandatory social audits. On the other hand it is also recognised that complying with company codes is not without problems – mainly related to multiplicity of codes and the absence of mutual recognition, especially in garment sector.

As of October 2004, 65 companies in India were **SA8000 certified** about half of which are from the apparel industry. The SA8000 certification takes into account worker rights and working conditions. Many consultancies including local offices of KPMG and PWC provide factory social audits with many independent consultants also working in this field.

There is great emphasis by Indian companies on **philanthropy and investing in the community**. On the community side, companies have long invested in social development, many through their foundations and trusts. Health and education (66% and 56% respectively according to Partners in Change survey) are the two areas that receive the most focus with many companies investing to the extent of setting up engineering colleges such as the Birla College of Engineering and Sri Ram College of Commerce.

**Employee volunteering** is also on the rise with a number of companies encouraging their employees to volunteer their time for social causes such as reading to the blind, environmental drives, blood donation camps and raising funds for charitable organizations.

Even as many companies provide services like housing and medical facilities to their employees, there is a need by the majority of companies to pay attention to the concerns of employees including issues like discrimination, HIV/AIDS, child labour, internal capacity building, fair wages and working conditions, human rights etc.

## 6.6 Environmental actions

### Limited action

Some companies have policies and ISO certification

As stated, 879 Indian companies were certified with the **ISO 14000** environmental management systems (as of September 2004). Despite that there is little attention paid to the environmental impact of companies especially given the lax implementation of environmental laws by the government. This is slowly changing and companies like the Tata Group, Godrej & Boyce, Rallis and Voltas have stated environmental policies and are taking action on the environmental front (also see best practice examples in Section 7). Multinational companies generally tend to have higher environmental standards as they are attuned to international standards in their operating systems.

One of the sectors which has a long way to go is the oil and gas industry which is using obsolete refineries and technologies resulting not only in pollution from the plants but also slowing the ability of the country to move to Euro IV standards for automotive pollution control as the planned in select cities by 2010.

Due to the pressure from a lot of multinational buyers many companies are required to adhere to international **environmental performance standards** e.g. large auto component manufacturers.

The environmental activity of many companies is still limited to planting trees and donating to environmental charities. And there is little or no focus on the environmental impacts of SMEs which account for a majority of businesses in India.

The Centre for Science and Environment regularly looks at the environmental performance of a number of industries and provides a **Green Rating**<sup>9</sup>. Their analysis of the pulp & paper, automobile and chlor-alkali sector shows that the performance of most companies leaves a lot to be desired.

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<sup>9</sup> [http://www.cseindia.org/programme/industry/green\\_rating.htm](http://www.cseindia.org/programme/industry/green_rating.htm)

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## 7 Best Practice Case Studies

Represented here are three examples of CSR best practice in India currently. They look at:

1. An industrial dynasty (Tata Steel)
2. A national bank (ICICI)
3. The local operation of a multinational company (Hindustan Lever Ltd)

### 7.1 Tata Steel

Tata Steel is part of the Tata Group of companies and shares the same ethos of community development inculcated in to the company by its founder Jamsetji Tata – a visionary who believed in affirmative action – in 1907.

The operations were established in one of the most impoverished areas in India, around which an entire township, Jamshedpur, was developed. The township is still to a large extent run by the company – from basic infrastructure like roads to medical facilities and housing.

The company is committed to CR and is an early signatory to the UN Global Compact, a founding member of Global Initiative on HIV/AIDS and a member of the Global Reporting Initiative. It was the first Indian company to publish a sustainability report.

Some of the highlights of its performance include:

- On the environment side, all its production units and the town services are ISO 14001 certified, it has reduced its consumption of raw materials by 20% in 5 years, it treats all of its waste water, and is starting to focus on greening its supply chain.
- Its employees have always been important to the company and it provides them and their families with free medical aid, has a family benefit scheme, has developed a Union Management Agreement, provides incentive for higher education, and is focused on reducing sexual harassment. There is special emphasis placed on raising awareness on HIV/AIDS. It has also initiated the process to gain a SA8000 certification.
- Tata Steel Rural Development Society (TSRDS) reaches out to over 700 villages in the vicinity of the Company's operations and is focused on helping the poor develop skills such as multiple crop farming, water management, reforestation and animal husbandry procedures. TSRDS also focuses on implementing educational, medical and sanitation services, vocational training and the encouragement of rural industry, entrepreneurship and handicrafts. It helps develop ancillary businesses and entrepreneurs by providing micro credit and job oriented technical training through institutes like the RD Tata Technical Education Centre.
- In Jamshedpur, the company provides civic amenities including medical facilities, emergency services, libraries and education centres through its Town Services, Community Development and Social Welfare Department and Energy and

Environment Cell. Services cover over 700,000 beneficiaries. The company supports a number of sports, arts and cultural activities.

- It sets aside 12-14% profit after tax for welfare.

Being part of the Tata Group also means that the company is engaged with the Tata Council for Community Initiatives (TCCI) which focuses on education, vocational training, community health and water management. Currently, TCCI is concentrating on evolving a Tata Corps of Volunteers to link the skills of its employees with the needs of the community. The procedure will be titled Tata Social-Evaluation, Responsibility and Accountability.

TCCI has also developed the Tata Index for Sustainable Human Development which seeks to determine the impact of companies' community development programs on the communities.

## 7.2 Hindustan Lever Ltd

Hindustan Lever Ltd (HLL) is the Unilever subsidiary in India. One of the leading consumer goods companies, HLL is admired for its range of branded products (including food products such as Kwality ice-cream and Lipton Tea to personal care products such as Pond's and Pepsodent and soaps and detergents such as Surf) as well as its vast distribution network.

On the corporate responsibility agenda, the company has taken a number of steps to mitigate its environmental impacts following a three pronged approach focused on elimination or reduction of effluent at the source of generation, recycling effluent and treating what is left. These include eco-efficiency efforts, reduction of greenhouse gases, energy conservation, tree plantation, soil conservation and watershed management.

On the socio-economic development agenda the company focuses on its own operations, its relationships with its business partners through the value chain and the voluntary or philanthropic contributions it makes to communities. On the last point, the company supports a number of charities and programs focused on mentally and physically challenged children, rural education and rural development.

Two of its leading initiatives are:

- HLL's **Integrated Rural Development programme** was started in 1976 in the backward district of Etah in the state of Uttar Pradesh adjacent to the company's dairy operations. Extended to about 500 villages, the program is focused on activities such as farmers training, health of villagers, infrastructure development, improvement in productivity and health of cattle. The project is now being undertaken jointly with Nutricia India (which has acquired HLL's dairy operations) and for certain health programmes with government-run Primary Health Centres and through autonomous bodies. Visiting the project is part of the initiation process for all managers at HLL.
- The objective of **Project Shakti** is 'to create income-generating capabilities for underprivileged rural women by providing a small-scale enterprise opportunity, and to

improve rural living standards through health and hygiene awareness'. HLL provides women with the skills to run a business and provides them with micro-credit to set the business up. The entrepreneurs have the opportunity to work with HLL post their training in the rural distribution of the company's products.

A typical Shakti entrepreneur earns a monthly income of about Rs.1000 – a significant earning for rural women contributing to their family income and enabling them to attain a better standard of living. HLL is now in the process of piloting 'i-Shakti' an IT-based rural information service that will provide solutions to key rural needs in the areas of agriculture, education, vocational training, health/hygiene, in Nalgonda district of Andhra Pradesh. Currently extended to over 5000 villages in 52 districts in four states, HLL's vision is to scale Project Shakti up to create about 11000 Shakti entrepreneurs, covering 100,000 villages by 2010.

On the other hand the company has faced criticism on some of its actions. HLL was recently blamed for contaminating land and water in Kodiakanal by the irresponsible disposal of **mercury thermometers**. The company took remedial action and closed down the factory and shipping the waste to the US for treatment.

### 7.3 ICICI Bank

ICICI Bank is India's second-largest bank with a network of about 505 branches around the country.

To guide its operations, ICICI Bank has formulated a Code of Business Conduct and Ethics which covers issues around conflict of interest, compliance with the law, protection of information, insider trading, public disclosure, protecting assets, corporate opportunities and fair dealing.

The bank's social initiatives are managed by its Social Initiatives group (SIG) which focuses on three thematic areas – early child health, elementary education and micro financial services.

In the **micro financial services** area the services include basic banking (savings and cash management), finance (debt and equity), insurance (life and health) and derivatives. The goal here is to facilitate universal access to these four services by the year 2010.

The mission of the SIG in this area 'is to act as a catalyst in the development of a micro financial services market that will improve the access of the poorest households to these services'. The bank hopes to achieve this by creating and enabling better linkages between formal financial service providers and community-based organisations through sustainable delivery mechanisms and appropriate products. This will be undertaken through the Micro Finance Resource Center (MFRC) which will also enable sharing of experiences, models and research in the field of micro finance.

Specific projects include:

- Supporting and providing funds and risk management strategies to NGOs and micro finance initiatives that provide financing to the poor

- Identify and support entrepreneurs in micro finance including mentoring and technical support
- Developing specific products to meet the financial needs of the poor including life insurance, home insurance, accident insurance and weather insurance.

ICICI Bank also runs [www.icicicommunities.org](http://www.icicicommunities.org) in partnership with Give Foundation and provides a portal for donating, volunteering or shopping in partnership with other organizations.

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## 8 Appendix: Civil Society Organisations

### **ActionAid**

Development agency working with marginalised and socially deprived sections of the nation and addressing issues like status of women, dalit equity, child education, drought and chronic hunger, exploitation of vulnerable groups like the tribal and the homeless.

[www.actionaidindia.org](http://www.actionaidindia.org)

### **Business and Community Foundation (BCF)**

BCF is a not for profit organisation working in association with the International Business Leaders Forum, UK. BCF works close with its member companies providing them professional inputs to formulate and translate their CSR policies into action.

[www.bcfindia.org](http://www.bcfindia.org)

### **Centre for Science and Environment (CSE)**

CSE is an independent, public interest organisation aiming to increase public awareness on science, technology, environment and development.

[www.cseindia.org](http://www.cseindia.org)

### **The Centre for Social Markets (CSM)**

CSM is an independent non-profit organisation that focuses on making markets work for the triple bottom line. The work by CSM is mainly divided into five main streams focussing on business, investors, workers, consumers and governance respectively.

[www.csmworld.org](http://www.csmworld.org)

### **Charities Aid Foundation (CAF)**

CAF is an international NGO providing specialist financial services to charities and their supporters. CAF's Corporate Services department can offer advice and support for community programme at companies helping to maximise the impact of corporate giving.

[www.cafonline.org](http://www.cafonline.org)

### **Confederation of Indian Industry (CII)**

CII's Social Development Council engages with member companies on issues of corporate social responsibility. The Green Business Centre focuses on environmental issues. CII has also partnered with UNDP to develop the India Partnership Forum to promote multi-stakeholder dialogue and partnerships.

[www.ciionline.org](http://www.ciionline.org), [www.indiapartnershipforum.org](http://www.indiapartnershipforum.org)

### **Credibility Alliance**

Credibility Alliance is a consortium of voluntary organisations committed towards enhancing accountability and transparency in the voluntary sector through good governance.

[www.credall.org.in](http://www.credall.org.in)

### **Development Alternatives (DA)**

Their objectives are to innovate and disseminate the means for creating sustainable livelihoods on a large scale, and thus to mobilise widespread action to eradicate poverty and regenerate the environment. DA provides training for GRI based reporting and has developed an energy and environmental performance benchmarking model and ISO 14001 certification for industrial townships supported by USAID.

[www.devalt.org](http://www.devalt.org)

**Federation of Indian Chambers of Commerce and Industry (FICCI)**

FICCI's Socio Economic Development Foundation provides an institutional base to the social sector activities of the corporate sector.

[www.ficci.com](http://www.ficci.com)

**International Resources for Fairer Trade (IRFT)**

IRFT aims to impact poverty and unemployment in India through fair trade. It supports the development of community based enterprises and encourages and monitors socially responsible businesses in India.

[www.irft.org](http://www.irft.org)

**Partners in Change (PiC)**

PiC engages with business to minimise its negative and maximise its positive impact on the lives of the most vulnerable and marginalised stakeholders.

[www.picindia.org](http://www.picindia.org)

**The Energy and Resource Institute (TERI)**

TERI focuses on research activities in the fields of energy, environment, and sustainable development. TERI's CoRE-BCSD program is a network of companies focused on sustainable development. It is a partner organisation of the WBCSD.

[www.teriin.org](http://www.teriin.org), [www.teriin.org/core](http://www.teriin.org/core)

**Management Schools (select list)**

- Indian Institutes of Management
- S.P. Jain Institute of Management & Research
- Narsee Munjee Institute, Mumbai
- Xavier Labour Research Institute

**Engineering Schools**

- Indian Institutes of Technology
- Centre for Ecological Sciences
- Indian Institute of Science

**Websites**

- [www.IndianNGOs.com](http://www.IndianNGOs.com) provides a wealth of information on the different activities undertaken by companies and NGOs on CR.