Multi-Stakeholder Dialogue on Responsible Investment: Mainstreaming of Environmental, Social and Governance Factors.

Brief Overview:

The Multi Stakeholder Dialogue on Responsible Investment was held in Mumbai on 19 January 2011. The event saw representation from most of the biggest names in the Indian markets. The 150 delegates that attended the event were a good blend of government dignitaries, corporate heads, consulting executives, academics, representatives from stock exchanges, cost and works accountants, chartered accountants, bankers, and investment managers. The diverse nature of the audience, with several different perspectives, enabled a holistic discussion on Responsible Investment and ESG integration. The delegates unanimously concluded that there needs to be a paradigm shift in the way business and investor roles and responsibilities are being perceived in India.

The one day Dialogue consisted of three sessions, the first being an inaugural session which set the tone for the rest of the day. The predominant message from this session, voiced by **Mr. Benno Graw**, German Financial Counsellor, introduced the theme of the dialogue: Integration of ESG factors. This reflected one of the most important policy issues that the world faces today. He made the case for incorporating the so-called “externalities”, i.e. often negative impacts of entrepreneurial activities on the environment or the resource base, into the balance sheets of companies; as well as for internationally coordinated approaches towards this end.

In his inaugural speech, **Ernst Ligteringen**, Chief Executive of GRI, said: “Investors, governments and the wider society are increasingly recognizing that environmental, social and governance aspects are linked to strategy and finance, and that stakeholders see companies continue to treat these as mere ‘intangibles’ and ‘externalities’ are viewed as irresponsible. Thousands of companies are now tracking their impact and reporting on their environmental, social and governance performance and mainstreaming this reporting is the way forward to a sustainable global economy. The GRI Framework helps companies worldwide to be transparent about their sustainability impacts and to identify critical 'blind spots' that are becoming unacceptable to investors and for society."

Jane Diplock, Chairperson of International Organisation of Securities Commissions (IOSCO) and the New Zealand Securities Exchange made the point that recent evidence shows that good governance is turning out to be good business. **Ishaat Hussain** of Tata Sons in his special address stated the need for a change in mindset of the business leaders and investment groups in order to drive a change towards sustainability and good behaviour.

This was followed by an interesting panel discussion on the practice of integrating ESG into Responsible Investment. Chaired by **Viraal Balsari** of YES Bank, the discussion started with a background on the ESG index of India, as presented by **Sunil Sinha**, Head Economist, CRISIL. This session also included lessons that India could learn from other developing economies. **Ms. Sonia Favaretto** from FBoVESPA, Brazil and **Dr. Yang Li** from the Shenzhen Stock Exchange, China remarked on the best practices of ESG integration in their economies. Ms. Favaretto also explained how the corporate sustainability index has been outperforming the financial index in Brazil in the post financial crisis period, 2008 onwards. Panellist **Rajnish Kadambar**, from IDFC, believed that the way forward would be to "Institutionalise ESG into the due diligence process in the evaluation of companies and making investment decisions". **Natasha Mehta** from Bloomberg and **Sarosh Batliwalla** of Mercer spoke of the information on ESG, its availability, quality and demand.

The final session of the day was conducted by the International Integrated Reporting Committee (IIRC). Discussions in this session took place at six tables, each led by an expert in corporate reporting practices in order to gain insights into the different views of those in the room. The questions discussed were around the extent to which integrated reporting would help to incorporate a broader set of factors into investment decision-making and improving the company's performances, and what are the key barriers to adoption of such planned framework.

Jane Diplock started these discussions by giving a background on the practice of integrated reporting, which was followed by the IIRC's plan, as outlined by **Ernst Ligteringen** and **Jessica Fries**, Director, The Prince's Accountability for Sustainability Project. The six facilitators were **Bharti Ramola**, Executive Director, PwC; **M. Gopalakrishnan**, Vice President, ICWAI; **Shiwaji Zaware**, Council Member, ICAI; **Manoj Arora**, Former Director if the Ministry of Corporate Affairs; **Anant Nadkarni**, Vice President of Group Corporate Sustainability, TCCI and **Mahendra Chouhan** of the Asian Forum for Corporate Governance and Sustainability.

Jane Diplock, Chair of the session, provided a succinct summary of the discussions and recommendations of the Indian stakeholders and spoke appreciatively of the level of commitment and analysis that was expressed by each of the smaller discussion groups towards integrated reporting and its relevance and incorporation into Indian markets. The primary outcome of this session was the consensus that Integrated Reporting will be helpful to corporations, the broader stakeholder community and perhaps also to the planet if it can be used to make the business of these companies better. However, there was some reservation over the demand for integrated reporting by companies and investors due to the costs that may be required for the integration process. It was observed that although some forward looking companies are already reporting in this way, there is a lack of coherence and standards that apply to such reporting in India.

In his closing address, **Mr. Stefan Helming**, Country Director of GIZ in India, commended India´s willingness to match its increasing global economic clout with a growing commitment of it´s private sector to live up to globally applicable ecological, social and governance standards, and to document this through integrating sustainability reporting into its standard practices.

After a day of exchange and learning, the Multi Stakeholder Dialogue, presented by GIZ and GRI in partnership with IIRC, CII- ITC Centre for Sustainable Development, ICAI, ICWAI, NSE and YES Bank's **Manfred Haebig**, Director-Private Sector Development, GIZ India concluded that India has an opportunity to take a leadership position if the barriers and challenges around data disclosure and quality of reporting, awareness building, standardisation of ESG parameters and separateness of financial and sustainability reports could be overcome. **Dr. Aditi Haldar**, Director, GRI Focal Point India stated that it is necessary for us to maintain and further the momentum on the progress of mainstreaming ESG factors into Responsible Investment, and to transition towards integrated reporting. All the different actors, from policy makers to assurance agencies to corporations and investors, need to work together to make these systemic changes and make mainstream disclosure on principles, policies, practices, performance, data gathering and decision making that imbibe ESG factors.

The panel lead discussions of the multi-stakeholder dialogue point out that responsible investment is an idea whose time has come. There is a broad based acknowledgement that ESG factors do play a role in risk management as well as sustainable returns. In the light of growing demand from the international investors and the ESG issues that face emerging India, the regulators, experts and market participants need to collaborate in developing a country specific model that facilitates the inclusion of extra financial factors into investment decisions.

Level and Comparability of Non-Financial Disclosures

One of the major impediments to the analysis of the non-financial data has been its inconsistent availability and incomparability. The voluntary disclosure adopted by some companies is a positive sign but regulatory intervention may be needed for the mandatory approach to be introduced in a phased manner. The ESG rating route may also be considered as one of the steps towards universal compliance in due course. There may be a need to address the country or sector-specific issues. The policy makers and practitioners should collaborate to create a mechanism to include the same. Partnership with the initiatives in standardization of corporate reporting lead by the likes of the IIRC and GRI will help India align with the international community.

Training for the potential RI practitioners

As the country gravitates towards better ways to integrate ESG issues, there will be a need for qualified human capital to provide momentum. There needs to be more focus on conceptual and product training for companies as well as investment professionals. The collaboration between the CSR or sustainability professionals and the investment community may also assist in translating ESG factors into a better understood business language. Investment Managers should be encouraged to adopt best practices from global practitioners in introducing relevant screening mechanisms or in developing the market for RI products. In the longer term, introduction of a Responsible Investment Certification program, as is the case in Australia and some other nations, may be considered.

Investor Awareness & Active Ownership

The domestic investors' awareness as well as demand in terms of ESG related information is abysmally low. Lead by the institutional investors, there has to be an active ownership in questioning managements on ESG performance. International investors are already playing the initial role but more domestic asset owners could be encouraged to subscribe to the principles of responsible investment which is a practical tool. The banks and other financial organizations can take the lead in institutionalizing the practice of integrating ESG factors in all the stages of portfolio screening and construction. The stock exchanges and media should participate in this drive for building awareness. The presence of the ESG India Index is extremely helpful but essentially ineffective if market participants have limited awareness about its composition and track record. There is an opportunity for the information providers to ensure that the extra financial information on listed companies is available as a snapshot to the wider investor population without incurring any subscription costs.

Expanding from this, GRI and GIZ will soon present their findings from the multiple consultations that they have held with various target groups, along with their assessment of the status of ESG integration in India, the challenges faced to ESG integration, and the way forward for India, in a study due to be launched in February 2011.

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