The M4D opportunity in India: Companies act 2013

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Summary

This note outlines some of the implications of new Indian Companies Act, which mandates that the largest Indian companies will have to spend 2% of net profit (before tax) on Corporate Social Responsibility (CSR) activities. The Act also increases the burden on certain companies, which includes the large mobile phone operators, in terms of the formal reporting of CSR. Increased government involvement this area has raised some concerns amongst certain sections of the Indian business community. Moreover, many have been confused on the precise implications of this new Act, due to the law's slightly ambiguous construction and phrasing. However, it is clear that all large Indian companies, including operators, will have to think carefully about how they approach CSR in the light of these developments. Mobile operators in India are already well placed to do this: they are already responsible for a large positive social and economic impact, both through their core business activities and through the provision of mobile products and services to underserved populations in essential areas like education, health and agriculture. We argue that by continuing to align CSR with core business, operators can make the greatest possible social impact, while simultaneously supporting their underlying business. Careful thought will also need to be given to the data and level of analysis used to monitor CSR as well as forging appropriate partnerships with those already involved in the social impact space.

Corporate Social Responsibility

Since its emergence in the 1960s, Corporate Social Responsibility (CSR) has been a subject that has excited much debate, both from those attempting to define it and those arguing whether it is a force for good or ill. In broad terms, CSR represents the widening of a company's focus, expanding it out from merely profit maximisation to include the consideration of a wider range of stakeholders, as well as a company's economic, social and environmental impact. Aside from being good corporate citizens for its intrinsic worth, companies have increasingly been drawn into conducting CSR for the reputational benefits its brings, both in terms of attracting staff and customers and improving relationships with governments and regulators. While still largely voluntary on the company's part, there has been an increasing global shift to making the disclosure of social and environmental activities a legal obligation[1]. In addition, internationally recognised frameworks, that helps companies to implement and conduct CSR, have emerged[2]. Nonetheless, around the

world CSR activities have been at the discretion of the companies undertaking them: both in terms of the kind of activities they conduct and the level of resources they commit.

2013 Indian Companies Act: CSR Implications

As a result, the new Indian Companies Act, enacted by the Indian Government on the 29th of August 2013, represents a significant development. Section 135 of the Act has attracted a large amount attention, in that it prescribes a legal framework that all Indian companies have to comply with in relation to CSR. From FY 2014–15, all Indian companies with a net worth[3] of INR 5 billion (US $78.74m)[4], a turnover of INR 10 billion (US $157.48m) or a net profit before tax of INR 500 million ($7.87m) will have to implement a 'CSR Committee' (constituted of 3 or more directors, with at least one of them being an independent) to oversee the implementation of CSR policy. Most eye-catchingly, companies that meet those benchmarks have been mandated to spend 2% of their average annual net profit (before tax) over the preceding three financial years. India is the first major economy in the world to write a defined CSR spend into law; only Mauritius has introduced something similar.

In principal, this Act could have huge implications on the amount of additional investment and resources that the largest Indian companies, including mobile phone operators, have to commit to CSR. According to a 2013 Forbes India analysis, only one of the top ten largest companies in India (Tata Steel) already spending more than 2% of profits on CSR. The majority of the top 100 companies are not currently reporting their CSR spend. Those that are, are spending less than 1%[5].

Two of the biggest questions rest on fundamentals: what does the Indian government define as CSR? And what are the penalties for companies that don't comply?

For the former, the Act defines CSR broadly, through specifying a wide range of 9 areas (there is also provision for 'other matters as may be prescribed) in which companies should direct their resources:

- eradicating extreme hunger and poverty;
- promotion of education;
- promoting gender equality and empowering women;
- reducing child mortality and improving maternal health;
- combating human immunodeficiency virus, acquired immune deficiency syndrome, malaria and other diseases;
- ensuring environmental sustainability;
- employment enhancing vocational skills;

[1] The New Corporate Accountability, Doreen McBarnett, 2013
[2] ISO 26000 provides guidance for business on how they can conduct themselves when it comes to CSR. This is a non-certified ISO standard and is therefore provides companies with guidance rather than obligating them to act in a particular way
[3] The aggregate value of the paid-up share capital and all reserves created out of the profits and securities premium account, after deducting accumulated losses, deferred and miscellaneous expenditure
[4] As of February 2014, ~63.5 INR to 1 USD
[5] CSR Report Card, Forbes India, 2013 (note: the study assessed after rather than before tax profits)

- social business projects;
- contribution to the Prime Minister's National Relief Fund or any other fund set up by the Central Government or the State Governments for socio-economic development and relief and funds for the welfare of the Scheduled Castes, the Scheduled Tribes, other backward classes, minorities and women.

Projects have to be located within India, with preference shown to initiatives that favour the local area in which the firm operates. Crucially, initiatives must not benefit employees of the company and any profits made from initiatives have to be reinvested into CSR (above and beyond the 2% already committed). These funds can be channelled through a trust, a society or a non-profit company or through an external NGO with at least three years' experience in the area. Companies are free to join together with others in order to deliver on their CSR obligations.

The Act mandates that CSR activities must be publically disclosed on an annual basis, or companies will face payment of a fine. However, if companies fail to spend the mandated amount on CSR, they will be compelled to issue a statement giving an explanation for why this occurred. As a result, the law does appear to give companies fairly large amount of latitude to both interpret what they see CSR to be, and to make the question of compliance somewhat blurred. Nonetheless, there a clear imperative for all large Indian companies, including mobile operators, to think through their new obligations strategically.

Potential CSR Spend from Operators

India is the second largest mobile market in the world; with 347.2 million unique mobile subscribers, a penetration rate of 27.57% (Source: GSMA Intelligence, Q4 2013). Simply through conducting business as usual, mobile operators are having a hugely positive impact on Indian society. The GSMA's 2013 Mobile Economy Report estimated that as a whole, the mobile value chain contributed just over 5% of the country's GDP.
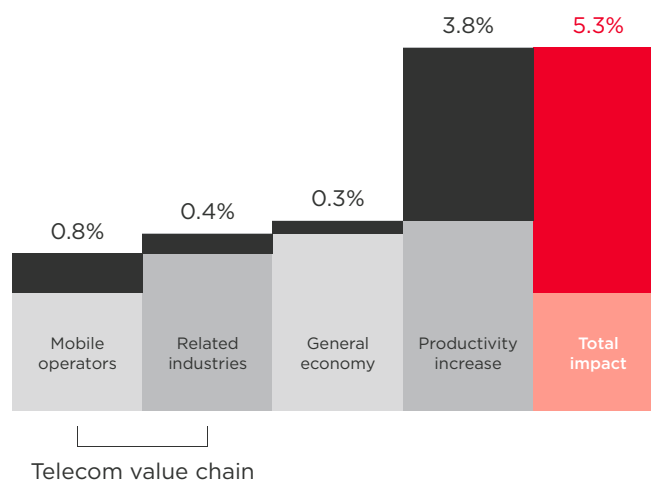
Figure 1: Total economic impact of the mobile value chain [6]
Source: GSMA Intelligence, EIU/BCG analysis

The '2% clause' does implies a large increase in CSR for operators in India. Current widely

[6] GSMA Mobile Economy India, 2013

quoted estimates suggest that the law implies a total annual spend of US $2 billion on CSR initiatives[7]. Following early uncertainty, it has now been clarified that where relevant the net profit will be calculated at the group level rather than the operating company (India only). Using figures from the previous three financial years, Table 1 gives an estimate of what kind of annual spend this could mean for the largest players in the Indian mobile market (or the groups to which they belong).

Operator	Market share, connections (Q4 2013)	Average consolidated net profit before tax (INR billion)	2% of average PBT over last three FY (INR/USD million)	Current CSR reporting
Airtel (Bharti Airtel)	22.3%	61.37	1,227.00 ($19.33)	ASR [10]
Vodafone	18.1%	- [8]	-	ASR [10]
Idea Cellular	14.5%	9.83	197.00 ($3.10)	BSR [11,12]
Reliance Communications	13.2%	4.02	80.46 ($1.27)	BSR [11]
BSNL	11.0%	- [9]	-	-

Table 1: Estimate of potential annual CSR contribution from selected Indian MNOs[13]
Source: GSMA Intelligence, Money Control

For a country like India, with such a range of unmet needs and obvious social challenges, this kind of money has the potential to bring obvious benefit. However, while companies are being pushed into thinking more seriously about how they manage their CSR, the ecosystem around it remains nascent. Moreover, despite huge growth over recent decades, India remains a difficult place for businesses to operate; wastage through corruption, poor governance and infrastructure remains high[14]. To date, the scrutiny on Indian companies has been on the amount of spending they commit to CSR initiatives, such as Forbes India's 'CSR Report Card'. It is clear that far more attention needs to be paid to the quality of CSR spending, rather than a simple focus on bottom line spending. The development of more comprehensive and smarter reporting, including the development of new metrics, is essential in order to intelligently help to guide where this money is spent.

The mobile industry in India has already seen a good example of a laudable obligation being placed on operators that failed to have the desire impact. The Universal Service Obligation Fund, places a 5% levy on operators' in order to develop services in rural and remote areas. At 5%, this levy is one of the highest in the world. However, a lack

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[7] The 2% CSR Clause: New Requirements for Companies in India, Kordant Philanthropy Advisors, 2013
[8] Not available for Indian operating company
[9] Not applicable since company is state owned and made a loss in previous three FY periods
[10] Annual sustainability report (ASR)
[11] Business responsibility report (BSR), published as part of an annual report
[12] The Securities and Exchange Bureau of India already require that the largest 100 companies submit a BSR, which outlines the disclosure of responsible business practices
[13] Operators with a minimum 10% market share; consolidated (group level) net profit figure used (Indian operations only)
[14] An illustration of this is their ranking in the World Bank's 'Ease of Doing Business' Index. In 2014,, they were ranked 134th out of 189 countries, falling from 131 in 2013

of adequate scrutiny on the fund has meant that it has been characterised by poor performance and a large amount of unspent funds. Between 2007 and 2012 only 34% of allocated funds were used[6].

What are the mobile operators already doing?

Those in working in the mobile industry are well placed to transition towards working with larger and more formal CSR obligations. Mobile operators control some of the primary infrastructure in India and as a consequence, they are in the perfect position to develop relevant services that bring large impact to underserved people across the country. Indeed, they have already recognised the opportunity that exists, and are leading on the creation of mobile products and services that have a positive social and environmental impact across a wide range of areas, including health, agriculture education and financial services. Within GSMA Intelligence, we currently track 143 M4D products and services across these areas in India. 48 (33.6%) of these are directly led by the operator. Operators are particularly active in providing education and health services, with these representing 33 (68.8%) of the total (see figure 2 below). Services in these two sectors clearly map onto the second and fourth of the government's CSR criteria. Mobile agriculture (the first activity on the list) also represents a clear opportunity. These three sectors are briefly outlined below.
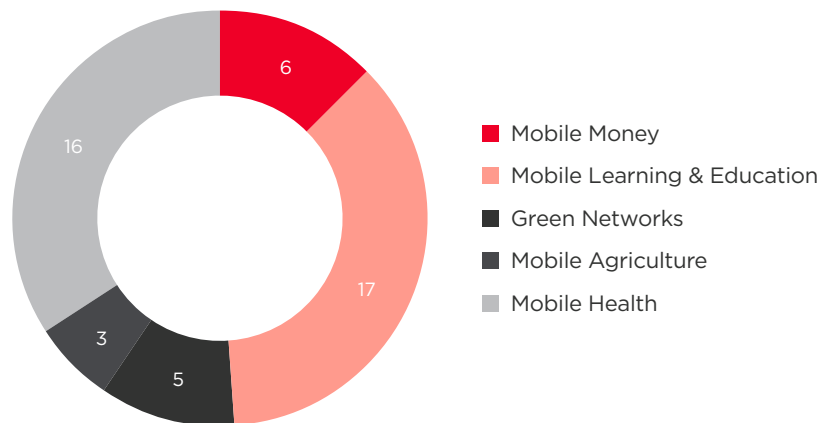

Figure 2: MNO-led Mobile for Development products and services by sector, February 2014
Source: GSMA Intelligence

Agriculture

Agriculture remains the dominant sector in India in terms the numbers it employs. 51% of India's nearly 700m workers are employed in agriculture; with 845m people living in rural areas. However, despite the huge numbers of people employed in the sector, productivity remains low compared with comparative economies (see Figure 3).
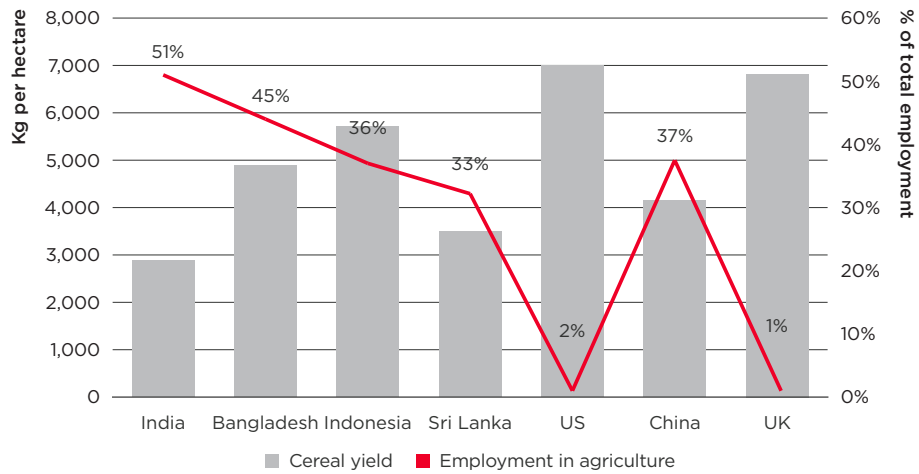
Figure 3: Agriculture productivity and employment, comparing India
Source: World Bank

The surge in ownership and access to mobile amongst rural Indians presents a large opportunity to mitigate some of the chronic inefficiencies that exist in the agriculture market. Already, there are a range of mobile agriculture products and services, which attempt to address these (see Figure 4 and Figure 5).
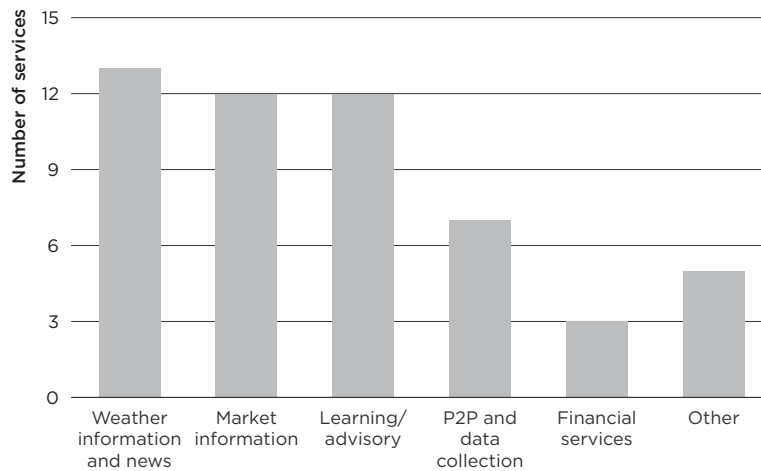

Figure 4: Existing mobile agriculture services in India
Source: GSMA Mobile for Development

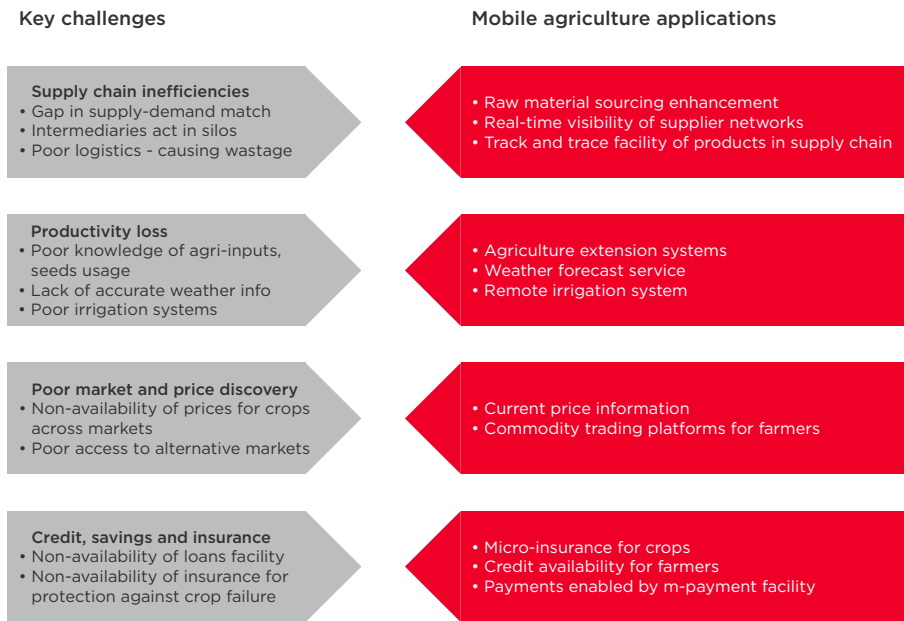*(Note: 22 total services; products and services can fall into more than one category)*

Key challenges

Mobile agriculture applications

Supply chain inefficiencies
• Gap in supply-demand match
• Intermediaries act in silos
• Poor logistics - causing wastage

• Raw material sourcing enhancement
• Real-time visibility of supplier networks
• Track and trace facility of products in supply chain

Productivity loss
• Poor knowledge of agri-inputs, seeds usage
• Lack of accurate weather info
• Poor irrigation systems

• Agriculture extension systems
• Weather forecast service
• Remote irrigation system

Poor market and price discovery
• Non-availability of prices for crops across markets
• Poor access to alternative markets

• Current price information
• Commodity trading platforms for farmers

Credit, savings and insurance
• Non-availability of loans facility
• Non-availability of insurance for protection against crop failure

• Micro-insurance for crops
• Credit availability for farmers
• Payments enabled by m-payment facility

Figure 5: How mobile agriculture applications address India's agricultural challenges
Source: GSMA Mobile for Development

Education

Despite a famed commitment to education in Indian culture, enrolment in education remains low when compared to developed countries. More worrying, the gross enrolment ratio (the proportion of total students enrolled of the total potential number) is also low when compared with comparable economies like Brazil, Philippines, Indonesia and China (see Figure 6).
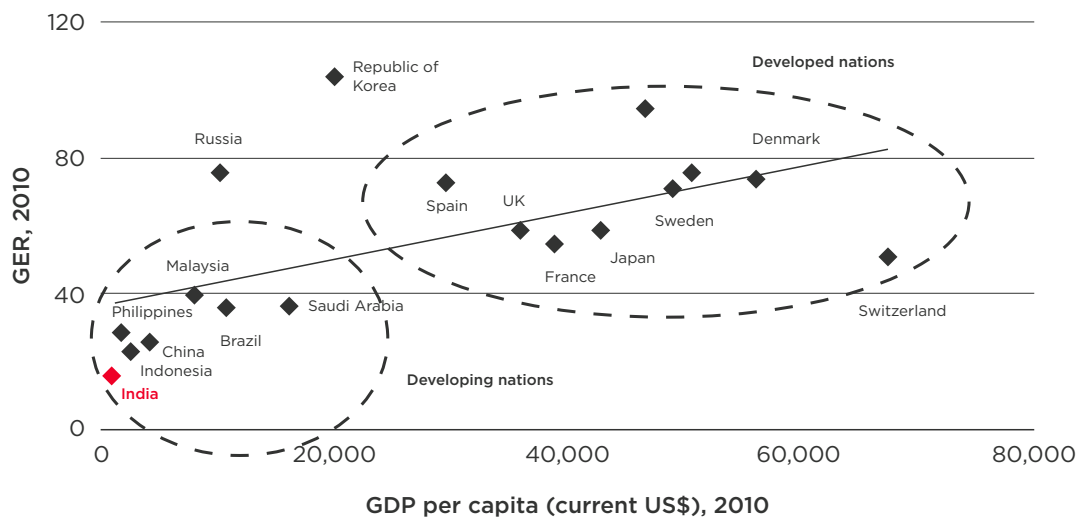
Figure 6: GDP per capita against GER ratio, 2010
Source: World Bank

It is increasingly recognised that mobile technology will form part of the solution to this undersupply of education, in that it helps to reduce costs, increase the scale of reach and allow learners to instigate their own learning. As a result a number of educational products and services have already been launched in India that attempt to address needs across the sector (see below).
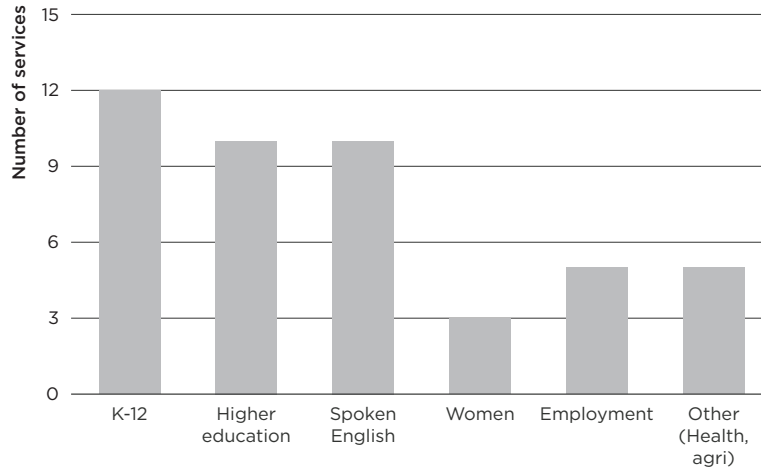
Figure 7: Existing mobile learning and education products and services in India
Source: GSMA Mobile for Development

Maternal health

Within India, there is a chronic shortage of healthcare infrastructure professionals, while the cost of capacity building is high. As a consequence mobile could be an effective means to reach underserved groups in need of healthcare services. In maternal health, this lack of infrastructure remains a problem.
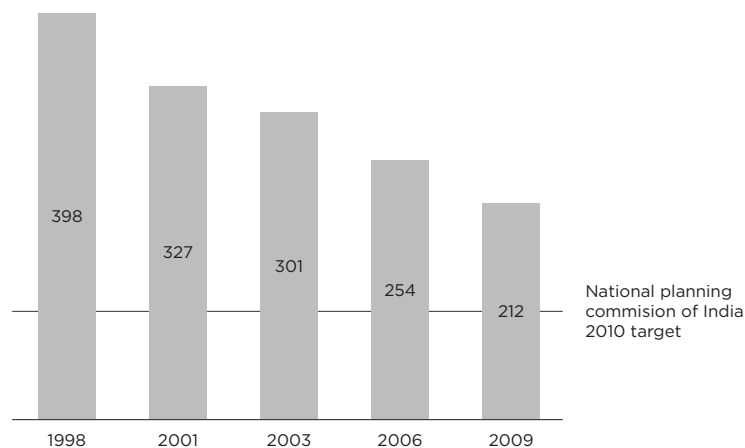
Figure 8: Maternal deaths per 100,000 births
Source: National Sample Survey Organisation, 2009; Census of India Annual Health Survey Fact Sheet, 2011

Mobile can be part of the solution to this through products and services that assist in the monitoring, registration and provision of medical advice. There are already of number of these in existence, with a number led by operators (see below).
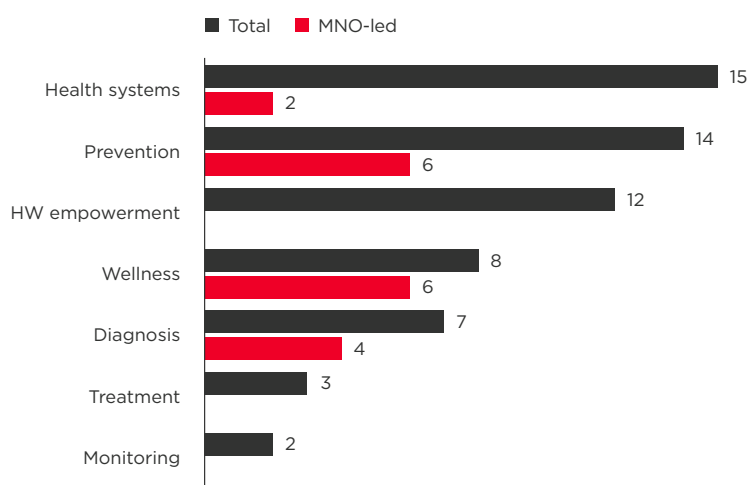

Figure 9: Existing mobile health services in India

Source: GSMA Mobile for Development

Perceptions of operators

A consequence of their activities in these areas allied with their provision of an essential service, means that the large operators are already seen by the general population in India in a very favourable light, both compared with other large sectors in India and even with mobile operators in other markets. In Trust Research Advisory's 'Brand Trust Report', operators sit towards the very top of the 1200 brands they canvas on, with operators held in higher esteem than a host of big names from across the food, fashion, pharmaceutical and banking industries.

Company	Rank 2014	Rank 2013
Reliance (Group)	9	7
Vodafone	20	41
Idea Cellular	22	33
Airtel (Bharti Airtel)	64	9

Table 2: Performance in 'All India Brand Trust' rankings (n=1200), 2014

Source: Trust Advisory[15]

Further involvement in the delivery of services in the above areas is likely to only further improve the public's favourable perception of operators, something that will clearly support their businesses' overarching objectives.

[15] All India Brand Trust Ranking, Trust Advisory, 2014

Conclusion

The implications of the 2013 Companies Act remains somewhat ambiguous. Where companies choose to commit their CSR activities, and how much resource they support it will only being to emerge in the next financial year. However, it is clear that all large companies, including operators need to start thinking more seriously about CSR. In this regard, there are several key things to consider:

1. **The mobile industry is well placed to deliver impact with CSR initiatives**
   Operators are already delivering a large amount of social and economic value to India, both through their normal business activities and through their CSR activities.

2. **Core business should be integrated with operators' CSR work for maximum impact**
   The introduction of the law affords operators the chance to integrate CSR into their wider business. Through developing mobile products and services in key areas like agriculture, healthcare and education they can align core business in order to create social impact, while at the same time increasing customer loyalty. Operators in India have already bought into this proposition; continuing to support it, in light of their new commitments is important.

3. **Better data and analysis of CSR will be key to the outcome of the policy**
   On its own, increasing obligations on large companies in terms of resources they have to commit to CSR will not lead to improved lives. The scepticism from many in India in the wake of this new law is both helpful and justified. Simply ploughing more money into projects with laudable social and environmental aims is not enough. In order to create impact, a greater understanding of how to measure what works is required. In order to do this, publically available data and analysis around CSR in India is essential. On its own, reporting how much companies are spending on CSR is not sufficient.

4. **Partnering with the right stakeholders will be crucial**
   It is clear that companies will need to work with a range of stakeholders in order to deliver their CSR activities. Operators will need to further develop and strengthen relationships with those in NGOs, social investors and entrepreneurs and the development community in order to both help understand and maximise their impact.

About the authors

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About

GSMA Intelligence supports the digital empowerment of people in emerging markets through its Mobile for Development resource. It is a central platform of data, analysis and insight used to inform investment and design decisions for mobile services. Our work is freely accessible through support from Omidyar Network and in partnership with The MasterCard Foundation at gsmaintelligence.com/m4d

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