

# Impact, Efficiency and Lessons Learnt

*Evaluating Corporate Social Responsibility: Case study of a  
toll road in India*

*Final evaluation report*

**German Investment and Development Corporation**

SEPTEMBER 15, 2014



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## Executive summary

The German investment and development corporation (DEG), in its effort to promote sustainable financing and development in emerging markets, commissioned Dalberg Global Development Advisors to conduct an assessment of one of its Indian investee's Corporate Social Responsibility (CSR) portfolio. The investee is a subsidiary of a large infrastructure company, which in turn is one of the business verticals of a large Indian conglomerate. This assessment was aimed at understanding the impact of the investee's CSR activities, identifying challenges for the investee as well as drawing lessons for offering targeted CSR support to DEG's broader Indian portfolio. This deliberation on support mechanisms comes at a crucial time when Indian corporations are gearing up to scale/invest in social impact, as a result of new Indian regulation on CSR. The new regulation mandates the deployment of 2% of a company's profits in CSR. However DEG's push for CSR and sustainable development moves beyond compliance to strong ambition and on-ground impact.

Dalberg conducted the evaluation in two phases – one focused on the CSR activities of the investee and their impact till date, while the other focused on CSR systems and processes within the organization and their implications on CSR challenges and impact. Both the phases drew on field research, interviews with investee CSR and management teams as well as interviews with DEG Headquarter (HQ) and India teams.

The first phase of the evaluation focused on assessing the relevance, effectiveness, efficiency, impact and sustainability of the investee's CSR activities. Overall, we found that the majority of the investee's CSR portfolio has been focused on activities that leverage core business strengths (e.g. infrastructure building) to meet unique needs of end beneficiaries and has helped advance their mission of community building (through positive outcomes generated on water access for irrigation and cattle feeding) in the region. Other interventions are ad-hoc in nature and see uneven or below scale progress given weak linkages to business strengths. Furthermore, there are significant opportunities to improve monitoring and reporting systems for CSR.

The second phase focused on assessing CSR systems and processes of the investee when juxtaposed with the overarching CSR philosophy and systems of the larger conglomerate (group). We found that the group has crystallized its commitments in a powerful group-wide CSR charter and envisaged a way to deploy this charter for maximum social and business benefit, as a diversified business group. During this study we observed that by plugging in a few gaps, the largely decentralized (and advantageous) model can yield much greater impact by improving upon elements of program design, execution strategy and measurement & evaluation. This can enable the broader group to use CSR as a strategic lever in creating a sustainable business and creating a benchmark in India and abroad.

Following analysis of findings in both the phases, Dalberg developed a set of recommendations for the investee to improve upon current CSR. Dalberg identified improvements along 4 key areas: 1) CSR aspiration and strategy that does justice to the Group's stature 2) Program selection that balances overarching CSR philosophy and local community needs 3) Program design that addresses key beneficiaries efficiently and generates sustainable outcomes, and 4) Monitoring and evaluation that enables intelligent decision-making and powerful communication.

Dalberg also helped DEG identify ways to offer targeted CSR support to investees in India. To this end, Dalberg offered short term solutions that can make tracking and measuring of CSR more streamlined, and a long term roadmap for helping its broader portfolio of investees generate strong CSR outcomes.

This report details DEG's overall drive for sustainable change in the context of an Indian investee, providing information on the evaluation context, methodology, findings and subsequent recommendations.

*Note: In the body of the report, the terms "investee", "investee company", "toll road company" are used to refer to the DEG investee being evaluated. "Group", "conglomerate", "parent company" all refer to the larger conglomerate the investee is a part of.*

# 1. Applying corporate capabilities for social good

The private sector in emerging markets plays a crucial role in economic development, improving access to goods and services, creating jobs and contributing to income growth and government revenues. The close proximity of emerging market companies to low-income population means these players are uniquely placed to foster inclusive growth, entrepreneurial opportunities and enable poverty reduction. Over 90% of jobs in developing countries are in the private sector<sup>1</sup> – the role of the private sector is therefore central to income generation and human development.

Beyond indirect multiplier effects of economic development, companies can directly contribute to human development by way of voluntary efforts. These efforts apply not only to ensuring socially and environmentally sustainable business practices, but identifying ways to use business profits for social good. Corporate Social Responsibility (CSR) encompasses this balancing of economic, environmental and social imperatives, integrated into business operations. Given, more often than not, emerging economies are plagued by weak public governance, high levels of corruption, and inadequate environmental, safety and labor standards, CSR offers a unique opportunity for the private sector to effectively complement public services and government development schemes.

The philosophy underlying CSR has evolved over time and is witnessing two key trends globally:

- The application of a new set of strategic priorities for CSR that can help generate “shared value”
- An increasingly professional approach to CSR that seeks to accelerate social impact

**New strategic priorities.** Beyond reputational gains and risk mitigation, companies now recognize CSR as an alternative way of accessing new markets, attracting and retaining talent and driving internal innovation. For example:

- GE Medical Systems developed an affordable, portable ECG machine specifically for rural India to overcome infrastructure and access challenges. The machine costs \$2,500, compared to \$10,000 for standard machines in developed markets and has now been successfully marketed in developed markets as well<sup>2</sup>
- Lenovo launched a program called “Venture Philanthropy” in 2008 in partnership with a Shanghai-based incubator, providing funding and technical support for small and medium-sized community social organizations (CSOs). As the companies grew, they were slated to drive demand for Lenovo’s products<sup>3</sup>

**An increasingly professional approach.** Companies are now looking at pushing boundaries of social impact through innovative market driven approaches such as investing in social business and venture philanthropy, increased focus on company core competencies, strong thematic focus and use of sophisticated impact measurement systems. For example:

- Shell Foundation has invested \$16M in 8 social enterprises, guiding them on scaling and implementing best practices<sup>4</sup>

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<sup>1</sup>International Finance Corporation, “International finance institutions and development through the private sector”, 2011

<sup>2</sup>Bloomberg Businessweek, “Innovation trickles in a new direction”, 2009

<sup>3</sup>GIZ - BMZ, “Fast growth and big impacts: How emerging market multinationals advancing sustainable development”, 2011

<sup>4</sup>Dalberg proprietary database on CSR and inclusive business case studies

- Nike Foundation invested \$100M to support a singular issue around poverty-plagued adolescent girls in developing regions in its “The Girl Effect” effort<sup>5</sup>
- Pfizer developed non-financial measures to identify progress in access to medicines, social R&D, and environmental health & safety in its 2010 annual report (e.g. no. of global illnesses addressed)<sup>6</sup>

While few companies have successfully deployed models such as those mentioned above, a majority struggles with multiple challenges. These include identifying where and how to deploy CSR funding, identifying credible and transparent partners, deploying the right measurement systems to track impact and effectively communicating intent and impact to stakeholders. In addition while emerging economies present a large market opportunity for companies, the level of political and economic development, business culture and regulatory framework can be barriers to uptake of sustainable practices and CSR.

In India for example, new regulation regarding CSR, presents both an opportunity and a risk. The enactment of the new Companies Bill by Government of India, mandates an annual CSR spend of 2% of company profits (after tax). While the specifics of the law are a step forward in ensuring greater accountability, transparency of operations and improved funding streams for social development, most companies in India are not ready to effectively deploy this sum of money on social issues. Currently most of the top 500 listed companies do not even spend 1% of their profits on CSR<sup>7</sup>. A compliance based approach would be an easy fix, with companies deploying funding in philanthropic activities, however without a sense of on-ground impact. This is likely to foster a culture of dependency between the company and grantee organizations. To avoid this, there is a need for support mechanisms that offer guidance on philanthropic investments, provide technical implementation support, facilitate partnerships and promote policy dialogue to work towards a common philanthropic agenda.

DEG plays an important role in providing support to corporations in sustainable business and CSR, through a three-pronged strategy:

- DEG finances direct investments in projects that generate positive development impact, tracking impact and its contribution to larger Millennium Development Goals. This is a fillip for business models that contribute to a country’s economic growth.
- DEG investments are guided by international standards for environmental and social sustainability, which are incorporated in contractual agreements with investees. This ensures basic compliance by DEG investees.
- DEG’s special Technical Assistance (TA) fund aims to offer financial, advisory and technical support to companies for specific sustainability/CSR projects. This can help companies develop internal capability and expertise to address sustainability/CSR challenges and move from basic compliance to strong impact.

DEG’s portfolio in India currently comprises approximately EUR 334 million for about 50 investments, most of which are in the manufacturing industries, financial or energy sector. DEG sees investment potential in a diverse set of industries such as manufacturing, power generation, and traffic infrastructure.<sup>8</sup>

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<sup>5</sup> Dalberg proprietary database on CSR and inclusive business case studies

<sup>6</sup> Dalberg proprietary database on CSR and inclusive business case studies

<sup>7</sup> Forbes India Blog, Challenges of the 2% CSR paradigm, 2014

<sup>8</sup> KFW DEG website, India profile on investments, 2014

## 2. Case study of a toll road project

In 2010, DEG provided debt financing for a toll road project in western India amounting to approx. 11% of total investment in the project. The toll road project is a 100% subsidiary and special purpose vehicle (SPV) set up by a reputable Indian infrastructure company. The project adopts a Design, Build, Finance, Operate and Transfer model for a period of 25 years in partnership with the National Highways Authority of India (NHAI) for the expansion of a two-lane highway. The toll road is of strategic importance given its handling of high volume traffic. The investment was made in an effort towards infrastructure development in the region which is likely to encourage trade and create new jobs raising skill levels and leading to greater economic activity.

As a responsible financier, DEG conducted strong diligence of the company, its stakeholders, the regulatory environment and project completion risks. As per IFC Performance Standards, DEG also worked to plug some gaps in government mechanisms. While NHAI is responsible for all re-settlement around the project, the government body does not compensate non-land title holders who have been displaced. DEG worked with the investee to identify and provide relocation compensation to 29 non-title holders comprising of six months of monthly wage earnings (as per the manufacturing industry benchmarks). Furthermore, the investee committed itself to set up a CSR-program to enhance livelihood and incomes in the project region.

In April 2014, DEG commissioned Dalberg to conduct an assessment of the CSR portfolio of the toll road company. The objective of the study was: a) to evaluate the relevance, effectiveness, efficiency, impact and sustainability of the investee's CSR activities and b) to identify learnings for DEG in order to engage and offer targeted CSR support to its broader portfolio in India. The following sections outline Dalberg's approach to the engagement, findings and recommendations on a way forward for the investee and DEG.

### 2.1 Approach and methodology

The study was designed to be a forward looking exercise for the investee company (the toll road company) and aimed at outlining a plan for DEG to provide targeted support to its broader set of investees. The detailed objectives of the engagement were as follows:

- To understand the outcomes and impact of current CSR activities of the investee on end-beneficiaries
- To identify the focus and relevance of the investee's CSR (in terms of end-beneficiaries and priority needs)
- To complete a routine evaluation: Assess relevance, effectiveness, efficiency, impact & sustainability, as per a best practice evaluation framework
- To identify ways for the investee to improve development outcomes and impact and mechanisms through which DEG can better support these initiatives

In order to fulfil these objectives, the evaluation used a two-part approach including an assessment of DEG's investee at the activity portfolio level and at the level of the overall organizational structure and CSR set up. The evaluation did not include the macro-economic development impact of the toll road construction, technical audit of stated financials and compliance with local laws and regulations.

The two-part approach translated to two phases covered during the course of the project, each designed to answer a key question:

## **Phase 1. Is the CSR program of the DEG investee impactful and efficient?**

In the first phase, Dalberg assessed the CSR performance of the investee through a mix of the Theory of Change (TOC) approach and the OECD DAC criteria. The TOC and DAC criteria are both best practice frameworks often adopted for strategic planning and evaluations in the social development sector. The Theory of Change framework maps program activities to intended outcomes and impact, and also helps develop metrics that measure program inputs, outputs, outcomes and impact. The DAC framework lays out five specific criteria of: relevance, efficiency, effectiveness, impact, and sustainability for assessment of a program activity.

This phase used the following data collection methods/tools (including a field component where Dalberg's project team visited the toll road construction site and areas where CSR activities have been implemented):

- **Household survey:** Dalberg conducted a survey of 250 household-level respondents, randomly selected in the 24 villages surrounding the toll road project area and equally weighted between women and men. This survey covered both an impact assessment of the on-ground CSR activities of the investee as well as a needs assessment of end-beneficiaries that can help inform future CSR strategy.
- **Key informant interviews:** Dalberg conducted semi-structured key informant interviews with a total of 15 respondents on the ground. The group of informants comprised of *Sarpanches* (elected heads of villages) and prominent members of local governance institutions.
- **Focus group discussions:** Dalberg's quantitative and qualitative findings from the semi-structured interviews and surveys were augmented by 3 focus group discussions (FGDs) of 10 people each, in selected villages surrounding the project areas.
- **Desk review:** Dalberg reviewed the investee's strategic CSR plans, operations reports, progress reports, project completion reports and financial budgetary information.
- **Interviews with investee head office and field teams:** Dalberg carried out 10 interviews with a carefully selected set of representatives from the investee company. These interviews were aimed at capturing internal staff perceptions of ongoing CSR activities and identification of key challenges from their experience on the ground.
- **Interviews with DEG India and Headquarters (HQ) teams:** Dalberg carried out interviews with DEG India's investment team, the headquarters monitoring and evaluation (M&E) and sustainability teams for a holistic understanding of DEG perspective and long term goals.

As mentioned earlier, the theory of change framework helped develop a comprehensive set of performance metrics. However, given small scale and short duration of CSR activities several outcome and impact indicators were assessed through perception based input from the survey and interviews as opposed to measure on-ground data.

## **Phase 2. Is the company CSR set up for success?**

The second phase of the survey focused on an assessment of the broader organizational set up in the investee organization. The assessment was important given the investee is a part of a much larger conglomerate with an overarching CSR philosophy and vision, which has strong implications on CSR design and implementation at the investee level.

This piece of evaluation relied on internal perspectives (within the investee company) on CSR philosophy and objectives, CSR systems and processes as well as challenges faced in CSR design, implementation and reporting.

This phase used the following data collection methods/tools:

- **CSR health check survey:** Dalberg used its proprietary CSR health check tools (survey and interview guides) to collect and analyze the investee company's senior management and CSR team's input. The tool was designed to take into account crucial drivers of success to ensure impactful and sustainable CSR, and builds on Dalberg's experience in identifying major challenges faced by corporations on CSR in India. 16 personnel from CSR, human resources, project execution, finance and business development departments within the investee company participated in the survey.
- **Interviews with DEG India and HQ teams:** Data from the survey was adequately complemented by perspectives from DEG India and HQ team members as well as Dalberg's observations of internal workings within the firm.
- **Desk review:** Dalberg reviewed existing documentation of CSR philosophy for the conglomerate as well as a charter that drives CSR activities within each division (of one which is the investee company itself).

After the field research and interviews/surveys across both phases were complete, Dalberg analyzed findings and shared them with the DEG India and HQ teams as well as the investee company. Discussions and feedback on the same, were taken into consideration before drafting final recommendations for DEG and the investee company.

## 2.2 Key findings and diagnosis

To communicate findings and diagnosis from each phase of the study, Dalberg used a simple framework which clearly laid out the well-functioning aspects of CSR and associated advantages under "What is working well" as well as gaps and challenges that need to be addressed under "Areas for improvement". This section highlights these insights following a brief context on CSR activities in Phase 1 and the organizational CSR set up in Phase 2.

### Phase 1. Is the CSR program of the DEG investee impactful and efficient?

The investee company's CSR is focused on regions around the toll road and communities affected by or living close to the project. Between 2011 and 2014, the investee conducted CSR activities in 19 villages along the toll road reaching close to 30,000 end beneficiaries through both direct (e.g. construction of a pond for access to water) and indirect outreach pathways (e.g. donation of clothes to a non-profit).

The investee company classifies and reports activities according to four "priority areas" of community building, health care and sanitation, education and awareness building and other miscellaneous activities. Analysing these activities, Dalberg found that another categorization, one based on motives, proved to be more useful to understand the impact and efficiency of the CSR program:

- **Core CSR.** Activities that are primarily driven by the investee's core functional expertise that can be used to address community needs. These activities tie in closely within business strengths such as infrastructure building, technical expertise, know-how & machinery and constitute a large chunk of the overall CSR portfolio budget and time/resource allocation.
- **Group Mandate.** Activities primarily driven by a strong group level (the entire conglomerate) philosophy to consistently adopt a few thematic activities across all divisions. These involve activities such as donations and employee engagement drives and might not necessarily be adapted to end-beneficiary needs.

- Relationship Management.** Activities primarily driven by the need to develop relationships with nearby communities and project stakeholders to ensure smooth project operations. These include support provided on the basis of specific requests/asks made by local communities and panchayat leaders, often linked to a social license to operate for the company in the community. These activities are carried out in an ad-hoc fashion with limited linkages to company strengths or overall CSR strategy.

Figure 1 maps the investee company “priority areas” to the classification mentioned above.

**Figure 1: List of CSR activities conducted by the investee company**

**The investee’s 3 major type of activities are distributed across stated priority issues such as community building, healthcare and education**

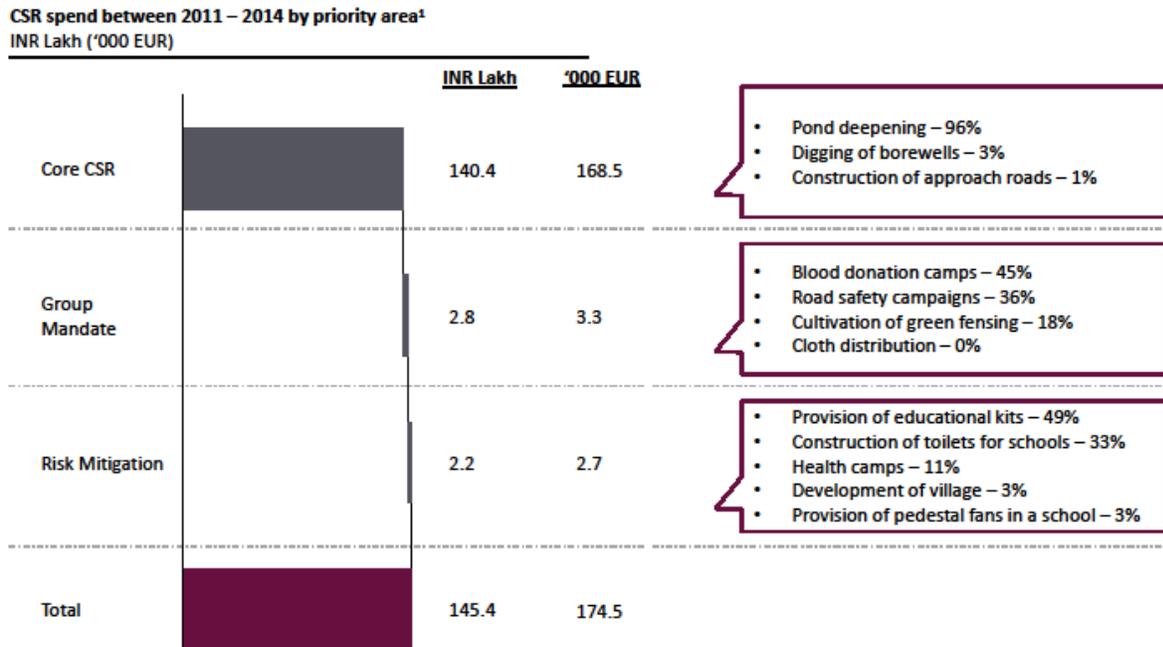
II. Phase I – Is this specific CSR program of the DEG client impactful & efficient?

Priority area	Activity	Number of activities	Category
<b>Community building</b>	Deepening of existing water resources (Jal Dhara)	15 ponds in 15 villages	Core
	Approach roads	2000 m roads (2)	Core
	Digging of borewell	1 borewell	Core
	Cultivation of green fencing in schools (Go Green)	One time activity in 2 villages	Group
<b>Health care and sanitation</b>	Construction of toilets for schools	1 activity	Relationship Mgmt
	Health camps	1 camp	Relationship Mgmt
<b>Education and awareness building</b>	Road safety	One time activity in 5 villages	Group
	Provision of educational kits	One time activity in 5 villages	Group
<b>Other/ Miscellaneous</b>	Blood donation camp	6 activities (3 years)	Group
	Cloth distribution for BPL families	3 activities	Group
	Development of village Anganwadi <sup>1</sup>	1 activity	Relationship Mgmt
	Provision of pedestal fans	1 activity (2 fans)	Relationship Mgmt

1. An Anganwadi is a part of the Indian Integrated Child Development Services program that provides basic health care, nutrition education and supplementation as well as pre-school activities in villages

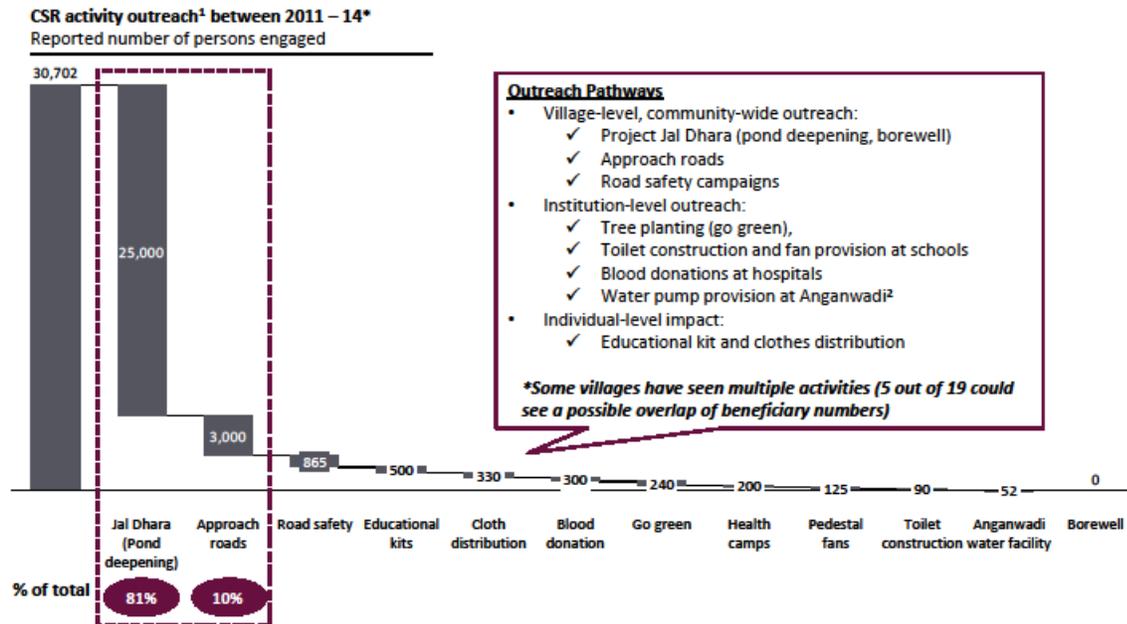
Between 2011 and 2014, the investee spent EUR 175,000 on its CSR. Most of this (96%) was spent on core CSR and 4% of the budget was spent on a number of activities leading to small scale and scattered impact.

**Figure 2: Disbursement of funds across 3 types of CSR activities**



1. CSR spend is inclusive of all expenditure on procurement of necessary material/equipment, outsourcing of specific implementation work, and time spent by the investee employees on CSR activities  
 Source: CSR activity documents; Dalberg analysis

**Figure 3: Reach and scale of different CSR activities**



**Note:** All end – beneficiary numbers include direct participants in an activity (educational kits, road safety) or beneficiaries with access to a facility (Jal Dhara, Approach roads, pedestal fans, Anganwadi<sup>2</sup> water facility, toilet construction) or beneficiaries having felt impact (cloth distribution, blood donation). Blood donation is the only activity showing tangible impact with 212 units of donated blood saving an equal number of lives.

1. All current outreach numbers are based on reported investee CSR data; 2. An Anganwadi is a government sponsored maternal and child – care centre in India providing basic healthcare  
 Source: Investee’s CSR documents

Additionally, a total of EUR 5,300 was spent on compensating economically displaced non-title holders. The relocation amount was provided to 29 non-title holders, addressing a gap not covered under government policy (the Indian government only compensates land title-holders). As mentioned earlier, this was brought about by DEG's effort to enable "socially responsible" financing in line with IFC Performance Standard 5, and enable CSR to enhance livelihoods and income in the project region. While the initiative was designed to move beyond government systems to address the needs of the displaced community, the investee's CSR does not actively address this segment of beneficiaries and is broadly focused on communities close to the project.

### **What is working well?**

The biggest success of the current approach to CSR is the investee's core CSR activity called "Jal Dhara". Jal Dhara is the investee's largest CSR activity and has addressed a major concern of the community: water scarcity. The region of company operations is dry and arid, and while people have piped water connections, there is a paucity of water for cattle and domestic household use. The investee's CSR activity addressed this effectively by identification of water bodies (ponds) and de-silting and deepening of ponds ensuring access to greater volume of water and little seasonal variation.

Jal Dhara leverages core business strengths such as construction, machinery and technical expertise to address infrastructure support needed by the community members. The communities have no or ill-maintained infrastructure for water supply, transport and in public institutions. The program also has maximum additionality, given little or no involvement from other public, private or non-profit organizations in the space.

The approach used by Jal Dhara tries to ensure long term impact on communities and sustainability of activities. Currently however, the impact of the Jal Dhara program is hard to assess tangibly, since there are no monitoring systems to measure impact. However, on an average villagers reported a **69% increase in year around availability of water** close to villages. Technical experts at the investee company claimed that the deepening of ponds will further improve water table levels in the villages, indirectly improving access to drinking water (through borewells, etc.) as well as improving agricultural productivity. In terms of ensuring sustainability, the investee company has plans to de-silt ponds once the capacity to hold water starts decreasing again.

Some local village leaders, Dalberg spoke to during the field visits, reported the following:

- "We initially had water only for 1 -2 months, however after the pond deepening, the water in the ponds can last up to a year"
- "Our pond now has water for a large part of the year. The pond is used by close to 1,200 households for drinking water and benefits agricultural productivity because of the rise in the water table.

Owing to its scale, Jal Dhara is also the most recognised and visible investee program for communities in the region, while other programs see little visibility beyond a small set of immediate end-beneficiaries.

### **What are areas of improvement?**

While the investee has seen programmatic success in Jal Dhara, the overall CSR program faces certain challenges that can be addressed to make the program more powerful. This section lists challenges and gaps Dalberg identified during the course of the study.

The first observation Dalberg made was that most programs beyond Jal Dhara are not perceived as highly relevant by villagers. There is room for the existing activities to be extended to serve more nuanced needs of the villagers. For example, during field visits villagers suggested that in order to improve school attendance, infrastructure support such as water filtration units or toilets would be more beneficial as compared to donation of educational kits, currently undertaken by the investee. Owing to this, ratings on relevance provided by villagers were seen to be lower as compared to ratings provided by internal investee staff.

**Figure 4: Perception of CSR impact (investee staff and end-beneficiaries)**

**Relevance of CSR portfolio of activities**

Average rating on a scale of 1 - 5, N=5 (Internal staff) N= 12 (Panchayat leaders)



\* Note: We are not recommending that the investee take up all these suggestions from the field. We will present recommendations separately by highlighting some of the underlying trade-offs, risks and rewards of different options.

Source: Interviews with field staff and head office teams; Key informant interviews

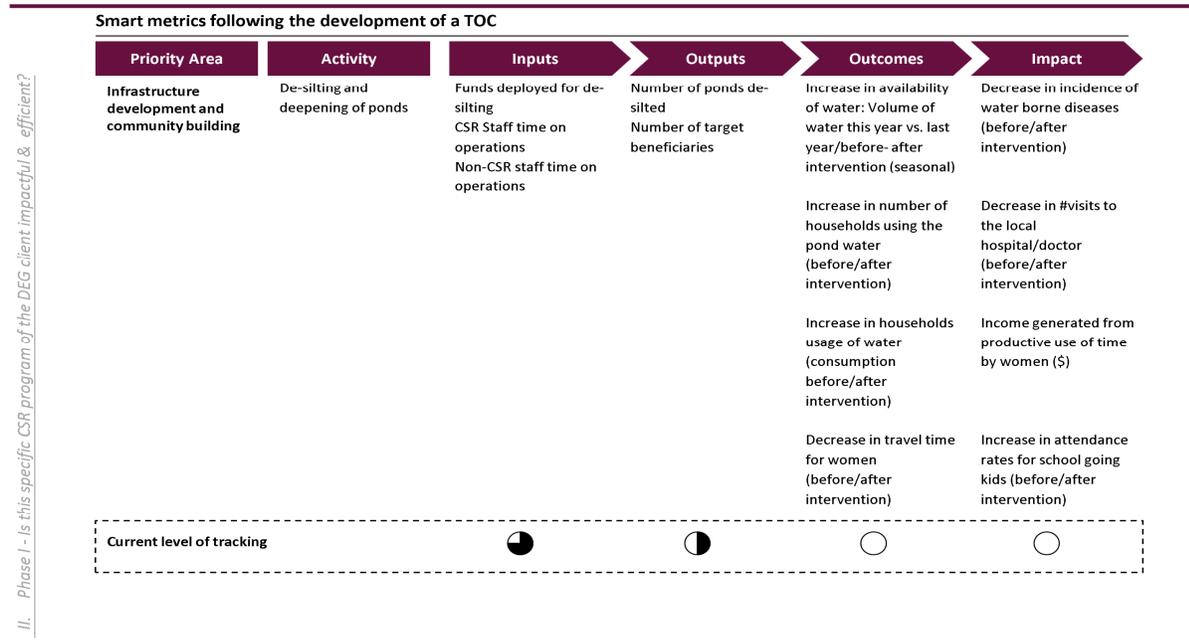
A second more important issue was the lean, informal nature of CSR monitoring. It was observed that monitoring and evaluation is conducted by field implementation staff informally and sees little documentation. The absence of robust frameworks for tracking impact made it difficult to clearly understand the output and long term impact of activities. Also, the lean documentation of program output is only retrospective in nature and does not play an active part in informing future CSR strategy.

As a result of little information on outputs, outcomes and long term impact of activities it was difficult to assess the efficiency, effectiveness and impact of the CSR activities. Evaluating efficiency was particularly difficult because there were no existing metrics that could demonstrate how impact might or might not scale with inputs (e.g. metrics such as per EUR spend on getting one out of school child back into school). The absence of information on tangible benefits made analyzing effectiveness (e.g. benchmarking of solutions to other alternatives) difficult as well. Dalberg, however, used a Theory of Change (TOC), a best practice framework to arrive at metrics that can be tracked in the future. The level at which these are currently tracked is illustrated in figure 5.

For the purpose of this study, the absence of quantitative data on these metrics was compensated by qualitative observations and perception based inputs from interviews and field visits.

Figure 5: Status of current tracking of measurement metrics

**The absence of clear measurement metrics and targets hinders both effective communication of impact for future strategy...**



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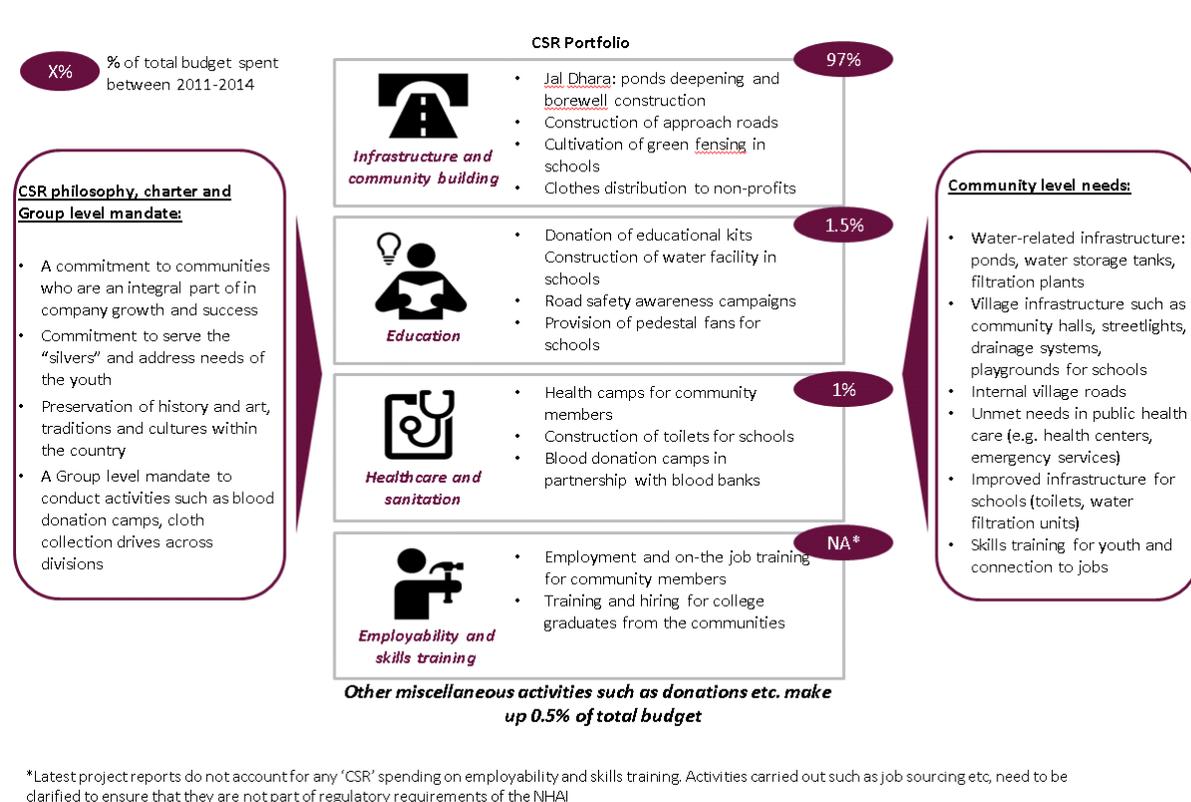
A third issue pertained to ensuring long term sustainability of current CSR activities. While the CSR and implementation staff seemed to understand the need and importance of sustainable activities, it is not reflected in the approach the company adopts for ad-hoc/one-time activities that at best have scattered impact. For the major initiative “Jal Dhara”, the company has plans to monitor maintenance of ponds at regular intervals to avoid them from falling into disrepair. However, no concrete step has been taken yet.

**Phase 2. Is the company CSR set up for success?**

The investee company is part of a large conglomerate (group) with its roots in an iconic Indian family business. The Group’s CSR philosophy is committed to the development of communities around project areas and aims to integrate social impact into core business objectives and strategy. Given the Group structure, investee CSR is characterized by few key attributes:

- Being a diversified business group, the entire group has defined its CSR philosophy and approach by way of a Charter. The CSR function within the group is largely decentralized in nature where individual businesses are responsible for CSR program design and execution with group level oversight. There is also a lean group level protocol for internal reporting.
- There is a need for effectively balancing top down Charter level guidelines with bottom up factors such as community needs. Given the nature of the investee’s business (infrastructure/construction) the company has to be particularly mindful of mitigating negative effects of the project as well as being sensitive to community needs in order to ensure smooth project progress.
- The current measurement and evaluation systems are informal and reactive in nature and do not currently play an active part in informing future firm CSR strategy. However they have been set up with intent to track and course correct as necessary and a strong function of group level processes.

**Figure 6: Group level and community level factors influencing CSR program design**



### **What is working well?**

Certain areas within the current CSR set up are working well in terms of achieving intended outcomes. These are primarily linked to a strong philosophy of integrating social impact into core business strategy.

There is a strong awareness of CSR intent within the organization with majority of the staff agreeing that the company is working towards a strong social vision/mission (69% of the people surveyed in the CSR health check stated that they were familiar with the CSR philosophy and could clearly articulate it). While there is no formal procedure to ensure business objectives and social impact of CSR programs are evaluated together, the staff understands and supports the idea. 88% of the staff believes that CSR strategy for a company must be such that it benefits the business as well. It is important to note that the staff’s view of business benefits (that tie to CSR) extends to ensuring smooth operations and toll road collections and does not include broader and strategic business objectives served by CSR.

In line with the CSR philosophy of strong commitment to nearby communities, the mechanism for ground level responsiveness within the firm was seen to be working well. This is result of a strong intent to create social outcomes as well as a strong alignment of community satisfaction with business needs of minimizing risk, project delays, etc. The investee company has a field staff (including vendor partners) who maintain relationships with local leaders and conduct informal needs assessments within the villages. This input then feeds into CSR program design. Dalberg observed that the field staff have a fair understanding of needs at a village level. The field staff are able to participate in the program design

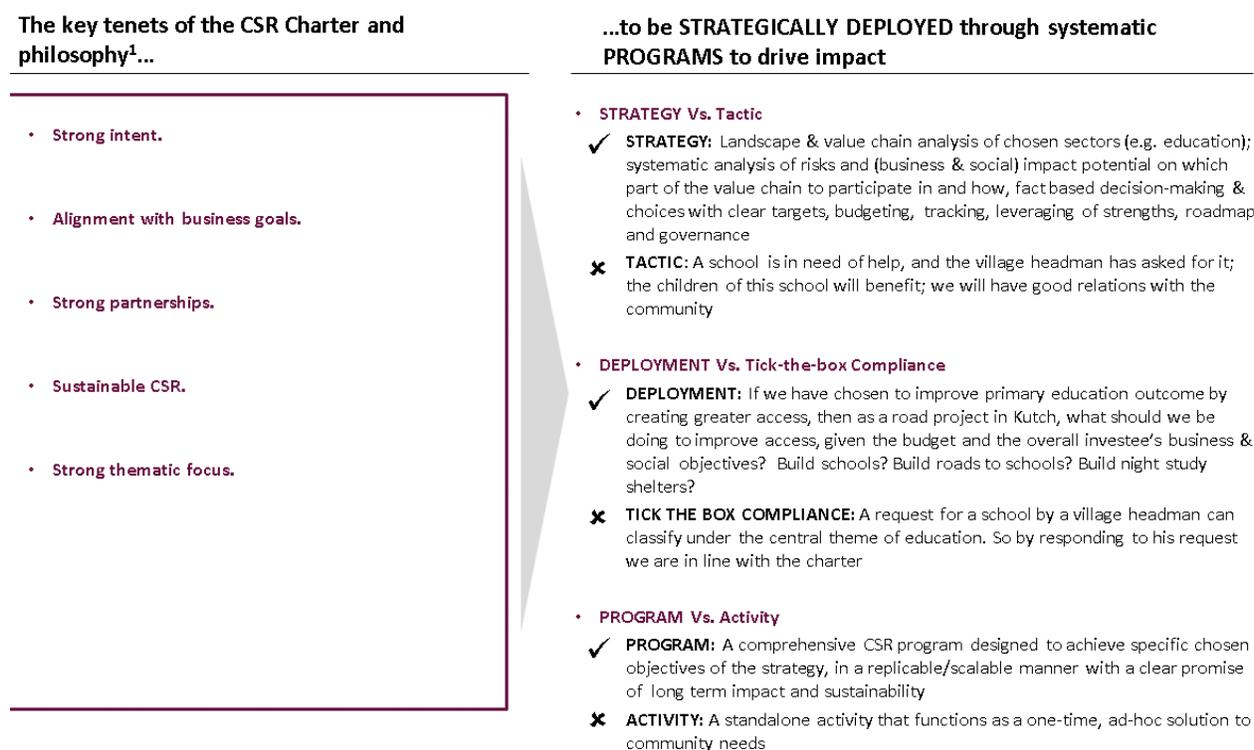
process given the mechanism is inclusive in nature, where inputs are gathered from both field and HQ level staff.

### **What are areas of improvement?**

By pulling a few important levers on the elements of program design, execution strategy and measurement & evaluation, the investee and the Group, both have the opportunity to create powerful impact. The CSR program can be further strengthened by incorporating an approach outlined below.

Firstly, the investee will need to ensure that the CSR Charter and philosophy is translated to on-ground activities. The CSR activities, while reflecting a community need, have room to imbibe the core values of the CSR charter into solution design. This can be accomplished by differentiating a tactical or compliance based approach that results in ad-hoc solutions to satisfy immediate community needs. These activities often claim to be in line with the Charter by plain virtue of addressing an issue in one of the priority areas (e.g. education, infrastructure development) however when put together do not make for a coherent strategy to address an issue.

**Figure 7: Deploying the CSR Charter effectively to ensure stronger outcomes**



1. The CSR Charter is a set of guidelines for CSR as well as operating principles that define the company's approach to sustainable business operations; the CSR philosophy referred to is as mentioned on the company website

In addition, the business and social objectives of CSR need to be broadened. The intent to combine business and social objectives is implicitly reflected in some activities being carried out currently (e.g. core infrastructure activities such as ponds deepening helps gain a "social license to operate" while activities such as clothes donation and organization of blood camps can improve "employee motivation") however there is need to think through more ambitious social goals that can be used strategically to address a wider set of business challenges and/or derive business benefit.

CSR systems also need to ensure that the investee company's brand and assets are leveraged to their full potential. Being part of a large conglomerate, the investee has an opportunity to leverage the group's brand and assets across different business divisions to truly distinguish its CSR approach from smaller firms. This effort can be aggregated at a group level to define and effect large scale impact. For example: large firms can work towards an ambitious targets such as "Raising employability for 5,000 youth in 5 years" by utilising competencies from different business divisions to provide a holistic solution (e.g. training centres for youth where the infrastructure, content and personnel are all provided by different group subsidiaries as part of CSR).

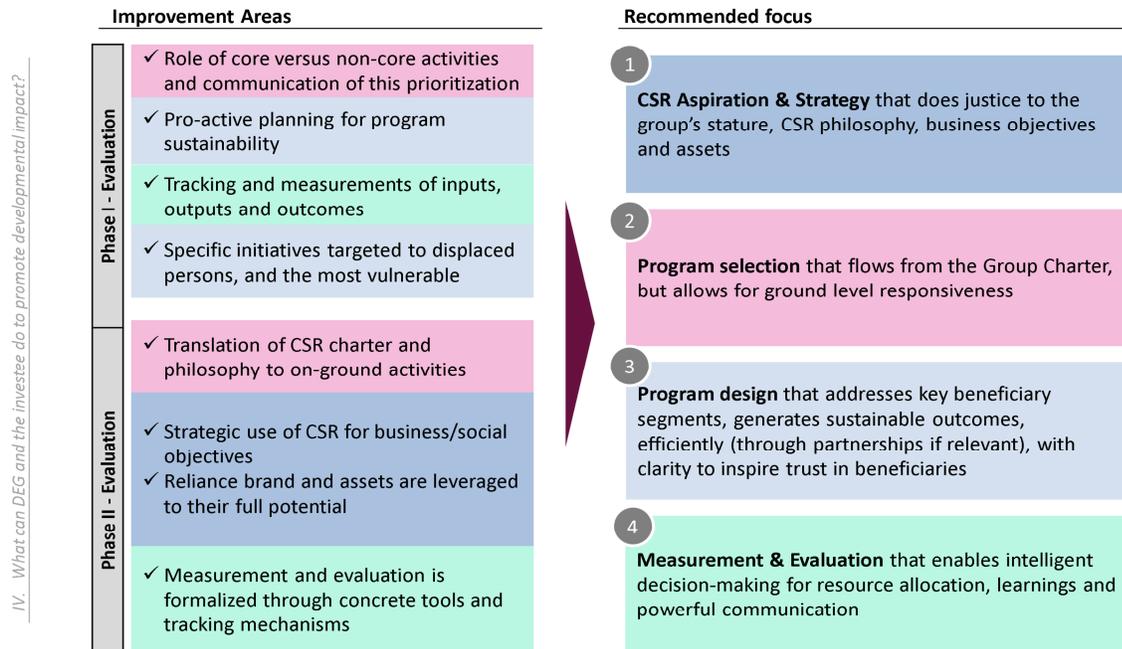
Aside from points mentioned above, a big gap that needs to be addressed immediately is monitoring and evaluation. M&E has to be formalized through concrete tools and tracking mechanisms. Current systems for reporting include monthly and annual reporting plans shared with the group CSR head and quarterly meetings including business divisional heads. In spite of this, visibility of activities of one division within the other was seen to be low. Strong platforms and reporting systems across different business divisions within the broader group are needed to ensure information sharing and learning. There is also a need for robust monitoring tools that need to be installed for internal tracking. As per the CSR health check survey, 63% of the staff believes that senior management has an inclination to invest in internal evaluations. However, there are no formal investee level or group level mechanisms to track program impact.

### **2.3 Way forward**

Based on findings from each phase of the evaluation, Dalberg developed a set of recommendations for the investee. These recommendations cover 4 distinct focus areas and were finalized after discussions with DEG India and HQ teams as well as deliberations with the management at the investee company. While some of the recommendations fall under the purview of the investee company, some of the recommendations require broader change within the parent company, with necessary support mechanisms for the investee. This section outlines in detail each one of the 4 areas.

Figure 8: Recommendation for the investee company

**Our evaluation findings point to 4 recommended areas of focus for the investee**



**1. CSR Aspiration and Strategy:**

As a first step, Dalberg recommends that the investee company clearly articulate and quantify a social ambition that can drive overall impact of CSR, building off of the current Charter. This needs to be accomplished at not just the investee company level, but the business division and overall parent company level. A clear mission is necessary since it reflects the status of the large conglomerate the investee is a part of, and can help focus efforts and motivate employees across different business divisions to work towards one singular goal. A strong mission can also be instrumental in effectively communicating the company's intent and impact. Few examples of corporations who have strong mission statements:

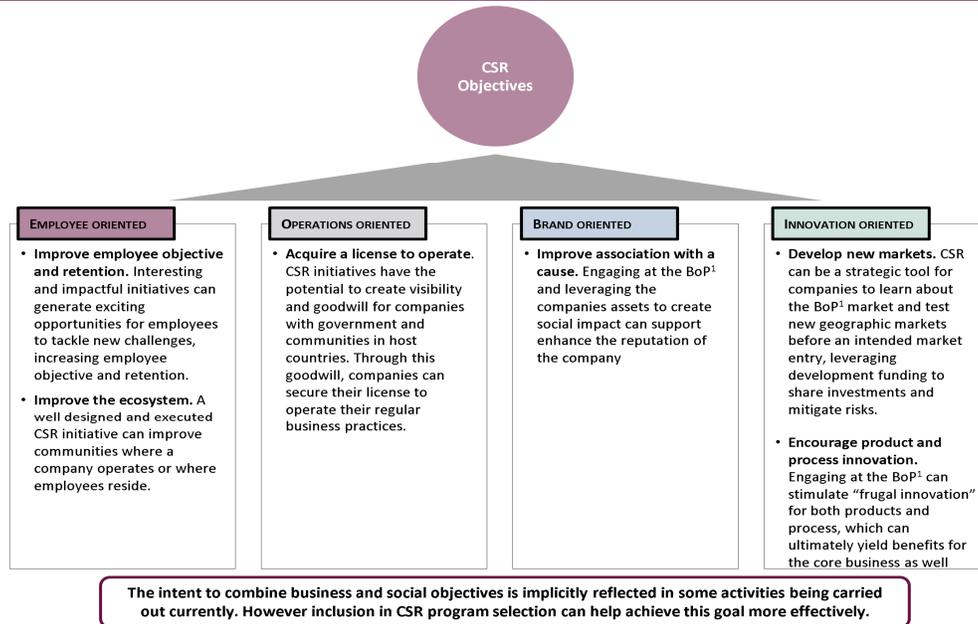
- Axis Bank Foundation: "Through our 9 sustainable livelihood initiatives that have been launched, we hope to impact the lives of around 4.5 lac families"
- Vodafone Foundation: "The Giving Championships aim to put nearly 30,000 out-of-school girls in school and ensure they stay there through one academic year"

Beyond a strong philosophy for social impact, the company needs to identify strong business motivation for CSR to derive highest impact per unit resource spent as well as to incentivize greater CSR rigor. The current approach is largely "operations oriented" with a focus on obtaining a community/social license to operate and limited benefits for construction operations. Innovative CSR models can help build a range of business capabilities. Capabilities that are applicable to various different businesses are shown below in figure 9.

Figure 9: Accruing multiple business benefits

1 With ambitious social targets in place, explore innovative CSR models to build a range of business capabilities

IV. What can DEG and the investee do to promote developmental impact?



1. BoP: Bottom of the Pyramid

Given the iconic status of the conglomerate, the investee company should consider leveraging group wide assets to maximize business impact. This can be done in the following ways:

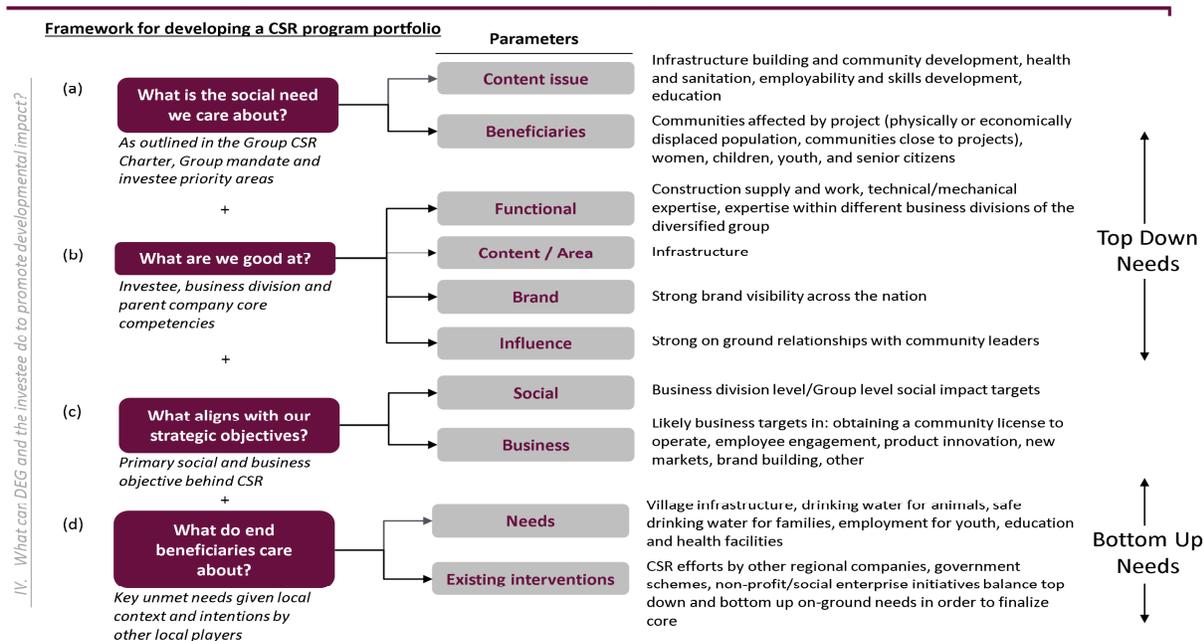
- **Build a new capability:** Build specific expertise in the firm that can help address community needs. E.g. developing a low cost construction mechanism to address infrastructure needs in villages
- **Leverage existing capability:** Use expertise/assets within the broader group to complement one’s own competencies. E.g. working with the communications business within the group to develop innovative education materials for schools the investee partners with
- **Leveraging existing asset:** Strengthen existing ways of having community impact. E.g. co-brand an existing NGO’s initiatives and work collaboratively on issue the non-profit is addressing
- **Building a new asset:** Build specific assets that can be mobilized across the group and in different points in time to address community needs. E.g. build a procurement/construction team housed at the group level that can serve specific CSR needs across different business divisions

**2. Program Selection:**

In order to balance top down group level CSR philosophy with bottom up community level needs, Dalberg recommends that the investee company use a simple framework outlining the most important questions that inform portfolio development. These questions are implicitly reflected in the current decision making, but have not been formalized to enable a more holistic and consistent selection process. The figure below illustrates the design of one such framework.

**Figure 10: Comprehensive framework for CSR program design**

**Adopt a simple four point framework to develop program portfolio that translates top down vision with bottom up needs**



Further, the key tenets of the group CSR charter which emphasize strong social intent, alignment with business goals, strong partnerships, sustainability and specific thematic focus (commitment to communities, special beneficiary segments such as “silvers” and the youth) should be strategically deployed through systematic programs. This means (as shown earlier in figure 7) engaging in fact based decision making versus responding to needs village leaders voice to keep them satisfied; identifying the most effective way of addressing a priority issue such as education, versus using token activities to tick the box; designing a comprehensive CSR program instead of scattering resources over ad-hoc small scale activities.

Given the need for certain small scale activities for risk mitigation/relationship management, there should be mechanisms that ensure these activities fall within an agreed resourcing limit. Small projects should be accounted from to avoid diversion of resources from core activities. In addition, specific personnel should be assigned to manage dedicated funding streams for these activities and to document inputs, outputs and impact for these activities.

**3. Program design:**

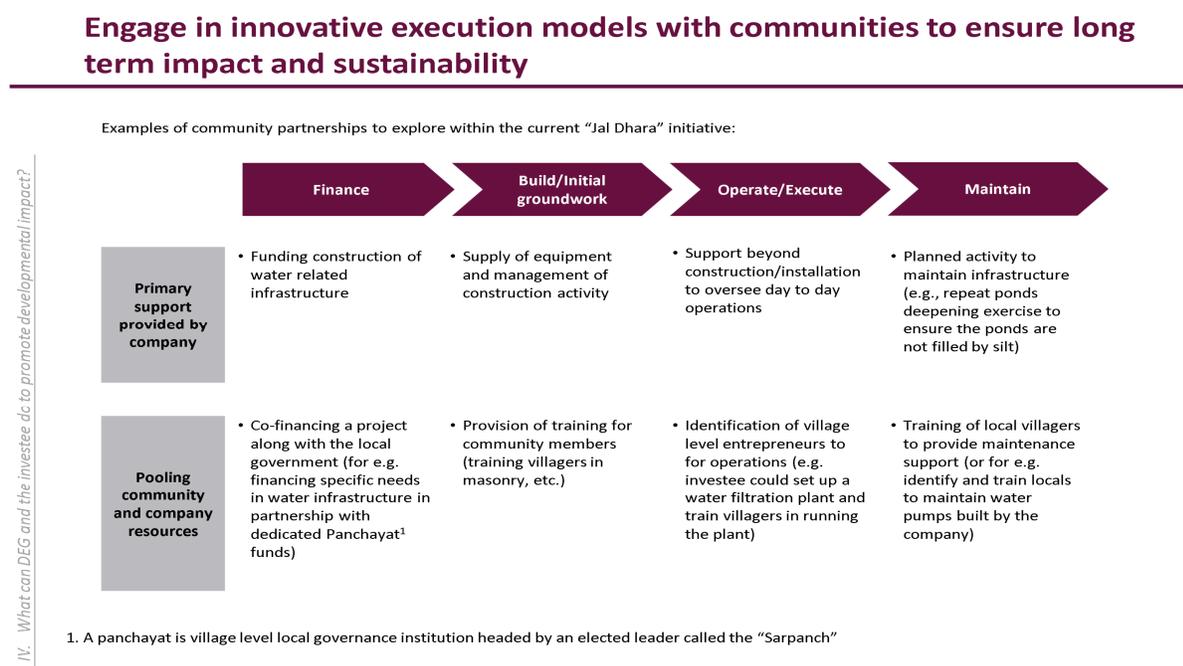
Effective program design and execution must be characterized by four key parameters of: a) addressing key end-beneficiary segments, b) generating sustainable outcomes, c) efficiency (through partnerships if necessary) and, d) clarity to inspire confidence and trust in beneficiaries. The investee company currently understands the importance of the first three parameters, however has not formally introduced mechanisms within decision making that combine all three. Despite strong relationships with

village leaders, the fourth parameter around ensuring clarity in communication to the broader set of communities has not been sufficiently explored yet.

In order to identify the right end-beneficiaries, Dalberg recommends that the investee build in practical mechanisms to identify most affected, vulnerable and transient populations at the early stages of the project. Tracking mechanism will be necessary to address the short term and long terms needs of these populations, along with checks and balances to avoid overlooking of the needs of vulnerable segments.

To complement investee strengths and ensure long terms viability of solutions on-ground local partnerships with institutions as well as the community should be explored. The figure below outlines a few innovative community partnership models, where community support can be mobilized at different stages of program design, financing, implementation and maintenance.

**Figure 11: Innovative partnership models**



In order to create build greater clarity and trust in the community, the following is necessary:

- Understanding of community needs (e.g. adjacent needs like water purification / water tanks)
- Sharing plans and expected milestones with community (e.g. what is expected to get completed when)
- Broad-basing the community leaders that are spoken to (e.g. going beyond the Sarpanch i.e. village headman)
- Exploring alternate channels of communication (e.g. engaging audio-visual communications that demonstrate inter-linkages and impact of activities)

**4. Measurement and evaluation:**

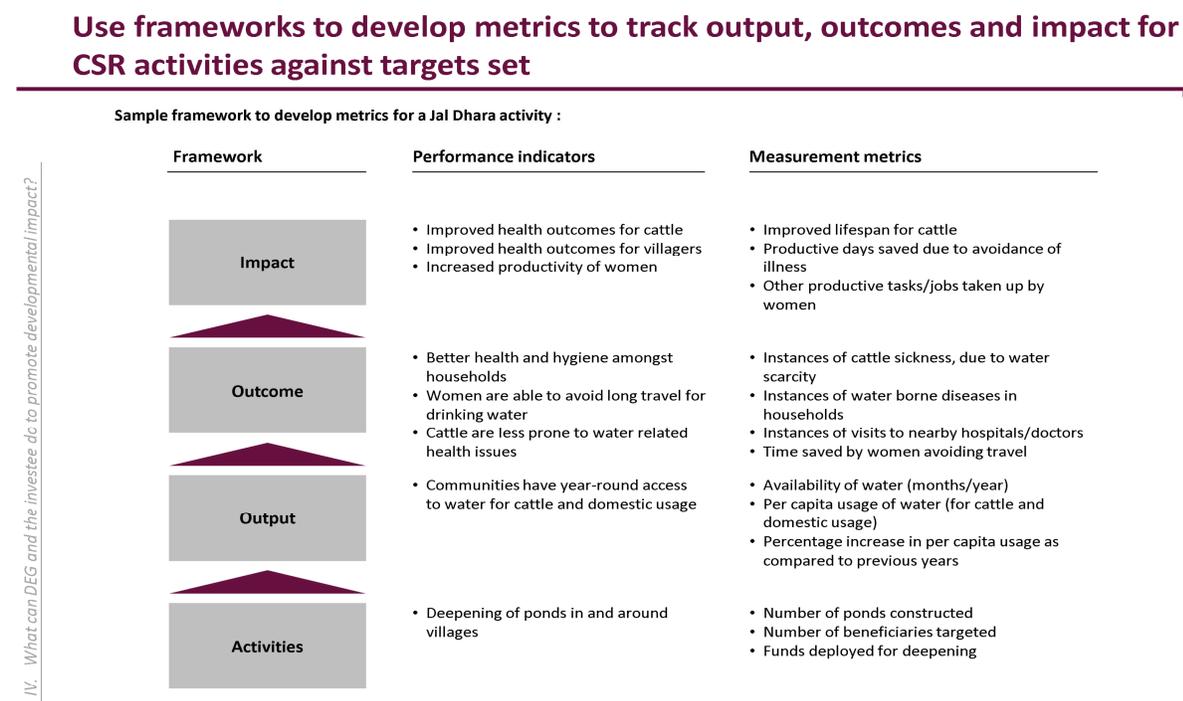
In order to build an effective measurement and evaluation (M&E) system, we recommend the investee company develop robust mechanisms to incorporate leanings into overall CSR strategy. The company

currently has a lean M&E system that tracks only activities conducted and funds disbursed and need to more effectively capture inputs, outcomes and impact. Few key steps are necessary with regard to this:

1. **Define metrics.** Use intended program outputs, outcomes and impact to define key performance metrics for CSR activities, in relation to key resource inputs for activities
2. **Collect information and monitor progress.** Gather and analyze relevant program data (baseline data, program inputs, key performance metrics) to monitor CSR progress and its contribution to the company's strategic goals
3. **Review existing portfolio.** Conduct regular internal and/or external evaluations to assess activities against key performance metrics
4. **Rebalance portfolio.** Use evaluations and on-going CSR program data to identify most impactful solutions/models and fine-tune CSR investment accordingly
5. **Incorporate learnings into framework.** Based on collected information identify key successes and failures, course correct where necessary and refine program initiatives, metrics and communication accordingly

The foundation of the M&E system lies in a strong framework that can help define metrics to track output, outcomes and impact for CSR activities against the targets set. In this regard a theory of change approach that links CSR activities to the ultimate intended impact and philosophy is useful. The figure illustrates the use of a theory of change framework to define performance indicators and measurement metrics.

**Figure 12: Developing performance indicators and metrics for CSR activities**



These metrics will then have to be tracked via simple data templates that are deployed for ground level reporting. These templates should incorporate data collection and documentation for a baselining exercise as well as regular internal tracking.

### 3. Learnings for DEG

Corporate India has only started moving away from traditional philanthropy to more strategic forms of CSR. The generations' old way of supporting non-profits and simple grant making is giving way to the using models that create value for all stakeholders involved. This change however has been slow to catch on, and only few socially responsible industry leaders have taken concrete steps towards innovative solutions e.g. capacity building for government schools or public-private partnerships in primary education.<sup>9</sup> These solutions are deployed primarily through what is often termed “catalytic philanthropy”, driven by individual/family wealth or foundations that are removed from core industry workings. There will therefore be substantial lag before companies in India are able to break away from this cultural norm to build capabilities that can deliver strategic CSR solutions.

Beyond a historical trend and related challenges, India Inc. is now faced with an additional task of complying with new Indian regulatory implications. In 2013, the Indian government announced the new Companies Bill, which mandates that large companies spend 2% of their three-year average annual profit towards corporate social responsibility. Estimates peg likely annual CSR spend for registered companies in India at EUR 2.16 billion.<sup>10</sup> Though the huge amount of capital offers strong potential for impact, Indian companies are not ready to deploy it. As illustrated in the case study, it is evident that Indian companies face multiple challenges and need capacity building support. Primary concerns remain those of internalizing a more strategic approach to CSR, ensuring effective program design and implementation, measuring and tracking impact, building learning systems and communicating intent and impact effectively.

In addressing these challenges, financiers such as DEG can play a crucial role. A large financier such as DEG has the presence (with a large and diverse Indian portfolio) and authority (with substantial stakes in certain companies) to push for higher standards of CSR and simultaneously provide investees with much needed financial and technical support. DEG's internal expertise in monitoring and evaluation, sustainability and technical assistance can be leveraged in providing targeted support to Indian investees. In order to work towards the same, Dalberg made recommendations to DEG at two levels: Simple changes to its existing monitoring tools and processes in the short term, and a long term plan for engagement with investees in India.

#### **Recommendations in the short term**

DEG can make small but significant changes to some of its internal systems in the immediate term. These changes will help investees use a basic framework to monitor and track CSR progress. They will also ensure greater understanding of investee CSR by different teams within DEG, helping DEG to offer the right kind of support for specific investees. Recommended changes are outlined below:

- Data tracking tools and templates

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<sup>9</sup> The Economic Times, “Most powerful CEOs 2013: Indian businessmen blur lines between philanthropy and CSR”, 2013

<sup>10</sup> Livemint, “Company law to change CSR landscape”, 2013

- A more clear structuring of the monitoring tool (DEG GPR tool) into three categories: core project impact, compliance and impact attributable to voluntary initiatives
- Addition of templates that can track social impact metrics customized to the CSR context of each investee using frameworks such as a theory of change
- Impact tracking mechanisms
  - Collaboration with investees at the start of an engagement to finalize a set of CSR metrics that can be formally tracked through new GPR templates
  - Designating a point person within the DEG investment team or the client CSR team to fill in templates on a regular basis
- Internal Information sharing
  - Given a lean M&E team and little regional presence of TA & Sustainability teams, greater sharing of local/on-the-ground information through:
    - Structured regular meetings where multiple teams can be updated on project progress, investee CSR/sustainability initiatives by investment teams
    - Short briefing via emails, sharing of photos/videos that showcase on-ground work for non-regional staff

### **Recommendations in the long term**

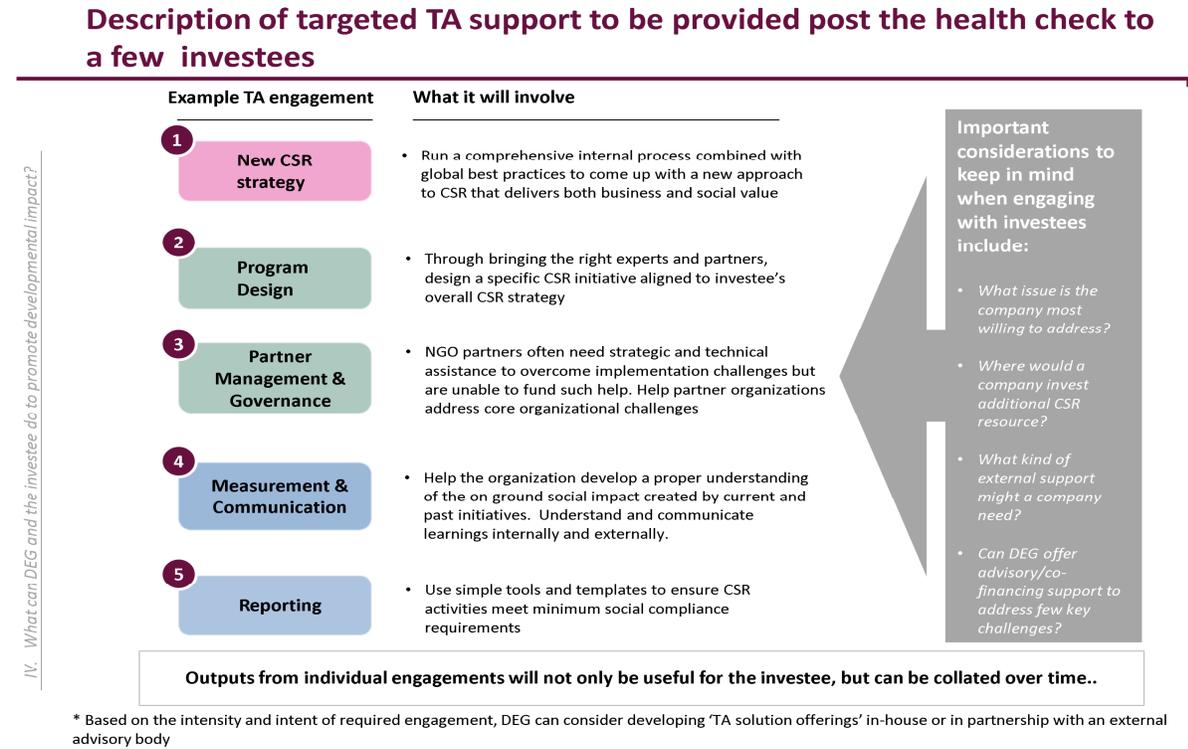
In terms of forward looking strategy, Dalberg developed a roadmap for DEG to develop internal assets and provide targeted CSR support to investees in India. In this respect, it is important to highlight DEG's current mechanism for provision of technical assistance (TA) to investees by way of a dedicated TA fund. DEG can co-fund CSR improvement exercises of up to EUR 200,000, providing 50% of the necessary amount. DEG can build on its existing advisory and technical support by way of a systematic exercise across the Indian portfolio as outlined below.

**Establish a portfolio view.** In order to understand the most pressing CSR needs of investments of varying sizes, capabilities and at different stages of maturity, DEG can conduct a quick CSR health check across its investment portfolio. A quick and targeted CSR health check will use a combination of tools – to identify performance of key drivers that determine CSR success: a) Internal perceptions of staff, management and execution teams, and b) External reporting of CSR performance and compliance. This exercise will help identify types of support necessary for investees and understand individual CSR capabilities.

**Carry out a portfolio prioritization.** DEG will further need to identify specific investees to offer support to. This can be done based on 2 criteria: investee significance to DEG (e.g. % DEG stake in Investee Company, % contribution of the investee to the total DEG portfolio, stage/maturity of the investment) and CSR capabilities of investees (industry of operation, reported/perceived impact on the ground, need/willingness to change) as identified in the previous step. Based on CSR challenges faced by high priority investees, DEG can identify necessary support to be provided.

**Engage with select investees.** DEG can subsequently use its advisory and TA fund support for specific investees, offering customized solutions. A possible list of TA engagements is mentioned in figure 13.

Figure 13: List of potential TA support for DEG investees



**Build centralized assets for DEG.** Having offered solutions for priority investees, DEG can build an internal repository of CSR tools, products and services that can be readily used to address specific challenges for other investees going forward.

## 4. Way forward

The engagement resulted in multiple conversations between DEG, the investee and Dalberg on practical next steps within the purview of each party. As this report was being drafted, DEG had conducted internal conversations involving the monitoring and evaluation, sustainability, technical assistance and investment teams on offering targeted support to investees. Dalberg and DEG have also engaged in conversations with the investee CSR and management teams to finalize a roadmap that translates recommendations into robust CSR systems within the organization.

Going forward, DEG may use this study to inform near term and long term investee engagement strategy:

- In the short term, DEG is enabled to effectively support and co-fund the investee's initiatives to address identified areas of improvement
- In the long term, DEG can use this specific investee case as a demonstration of how targeted support can improve investee CSR and use this study to drive change at a broader portfolio level

The final course taken, will be contingent on internal consensus within DEG as well as interest from select investees.

As mentioned earlier, the size and diversity of DEG's portfolio gives it unique leverage to influence the way CSR is approached in India. DEG's support to organizations would entail financial and technical support to CSR and management teams from investee organizations. While the details still remain to be worked out, possible support mechanisms might entail the following:

- Identification of most crucial CSR challenges for an investee: Investees are often unaware of challenges that have larger implications on CSR outcomes. DEG can help organizations identify and address these
- Solutions and implementation support for investees: DEG can provide support in designing solutions, and more importantly in hand-holding investee teams through a pilot implementation round
- Monitoring and follow on support: Beyond implementation of solutions, DEG can conduct evaluations to assess the progress of deployed CSR systems and their contribution to sustainable CSR outcomes

Through the above mechanisms, DEG can help raise the bar on CSR ambition and impact of its investees. A success indicator of such a support mechanism would be a visible change in on-ground outcomes, as well as broader, increased interest in financiers to support and in companies to adopt robust CSR systems.