

# RISE OF THE OTHER MULTINATIONAL

As India knocks on the doors of new opportunities with its booming economy and increasing respect in the global market, a new concept is being born. A concept where profitability meets humanity and gaining is equivalent of giving back to the society. **SUJATA SRINIVASAN** charts the route taken by the new age social entrepreneurs



The Ford Foundation supports a micro-enterprise in India

PHOTO COURTESY: THE FORD FOUNDATION

## Scope of social entrepreneurship in India

**F**IRST, there were the 'commanding heights' of the Indian economy. Next came privatization. Then, two Indias emerged—one shining and the other trapped in dire poverty. Today, there's a new kind of entrepreneurship brewing that seeks to find solutions for the 'Other India,' the one whose forgotten face lay in a jumble of developmental statistics. The kind of entrepreneurship where profitability meets humanity, where Adam Smith meets the likes of Bill Drayton, founder of Ashoka and one of the pioneers of the social entrepreneurship movement in India, and Dr Abraham M. George, a former executive in a US multinational corporation who started a foundation with \$20 million of his own savings, that today provides livelihoods to thousands of India's most vulnerable.

Sixty years after independence, one out of every four Indians lives in poverty, according to various official estimates. One out of four in a nation of over one billion people! Ironically, part of the solution to poverty alleviation is a result of the successes of the brain drain generation, which showed as much heart as intellect in its entrepreneurial endeavors, transforming what was considered a drain of resources into one of India's biggest gains.

Venkatesh Raghavendra, a former Ashoka employee and chief philanthropy officer at American India Foundation, says "Non-resident Indians can bring their entrepreneurial skills to bear on the social entrepreneurial initiatives in India. Engaging their network as angel investors of financial partners in the initiatives is another way. NRIs can also help social entrepreneurs leverage technology and (provide) marketing acumen to enhance impact."

One such example is Dr George, founder of the five-year-old George Foundation in New York, who immigrated to the US 38-years-ago. A string of corporate successes led him to the position of managing director at Credit Suisse First Boston. Ever the entrepreneur, he founded and sold Multinational Computer Models, Inc., which enabled him to launch his foundation, which operates in Karnataka and Tamil Nadu with an annual budget of Rs 2 crores and a capital budget of Rs 4 crores. Its missions? Poverty reduction, environmental health, and strengthening democratic institutions in India. "Right now, approximately 10 percent of my expenses are met by donations. I carry the remaining 90 percent. I'm living off my past wealth, that's all I can say," says George, who ploughs back the profits into the business and the community.

## Social entrepreneurship in the context of poverty reduction

**G**EORGE Foundation deals with poverty reduction in two ways. The first is livelihood and income generation. The second is the delivery of basic services like education and healthcare, community development and water resource management," George says. "We are trying to create income and wealth for the poor people and give them the kind of job skills that will allow them to earn higher income. If you want to save the really poor people from poverty—the 300 million to 500 million people who earn less than 30 cents a day—you must provide them with employment. You can't expect 500 million people to become entrepreneurs. That's a totally unrealistic scenario."

How does one create steady employment for such a vast number of people throughout

the year? By capitalizing on their skills, which lie primarily in agriculture. The Foundation, one of the biggest sellers of banana in South India, owns 200 acres of farmlands where it cultivates banana and grape. In a nation where 60 percent of the population is employed in agriculture, and yet only around 20 percent of the GDP is accrued from agriculture, the fact that advanced technology is crucial to productivity is not lost on George. "We use modern technology in irrigation, fertilizing and so on. Our people go through several years of training in these technologies," he says.

Although the wages paid are higher than the market rate, the Foundation posts a profit margin of as much as 30 percent in a good year. In Tamil Nadu, for example, the Foundation pays its workers around Rs 70 a day, versus the average market rate of Rs 40. "Our goal is that our workers are able to support their families and get out of bonded labor. We provide subsidized medical care. People cannot work on the farm unless they get annual medical check up. They cannot work on the farm unless their children go to school (which is run by the Foundation)," points out George. "It's a little bit of a parental type of arrangement. But these people love that there's somebody taking care of them."

Each year, the Foundation sets aside a portion of its profits for the workers, who are also required to set aside a part of their income. "We combine both to purchase land for them," says George. "If we save Rs 30,000 by the end of five years, we can go and ask the government to subsidize another Rs 30,000 so that they can buy a quarter of an acre of land. Right away they are out of poverty permanently. We want permanent solutions, sustainable solutions, and it must come from opportunity creation."

George injects a note of caution with regard to microfinance. "There is a lot of hype about microfinance sort of saving people, and everybody turning into an entrepreneur. To think that a poor person is taking \$100 and becoming an entrepreneur is only a fantasy!" he says. "In my experience, having worked in the village for 12 years, I am yet to see the so-called poor turn into entrepreneurs with \$100. The people who do become entrepreneurs are not truly poor as we define it. They are able to run a tailoring shop, an STD booth, or a tire repair shop. For these people, who have some skills and perhaps an additional source of income, microfinance does a good job if it is honestly done and you don't charge 36 percent interest in the name of entrepreneurship. Just on the argument that the local money lender charges 120 percent doesn't justify someone sitting in the US running a microfinance company to charge 36 percent for someone who can barely feed his children. I have a moral problem with this. They can say their transaction cost is high—but I know that I can break even at 15 percent interest," he says.

## Fellowships for social entrepreneurs

**V**IRGINIA-headquartered Ashoka, founded by Bill Drayton in 1980, identified its first Asoka Fellows in India in 1981. Today, the organization has awarded fellowships to more than 1,800 social entrepreneurs in 60 countries around the world. Between 2004 and 2006, Ashoka's investments in India totaled \$1.9 million. "In India, there is increasing recognition of the term social entrepreneur—there is celebration of

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the term and that is clear by the number of Fellow nominations the Ashoka India office receives every day. There is also a great acceptance of the concept among the business sector and corporations; so much so that the time is ripe for partnerships and joint ventures," says Sohini Bhattacharya, Ashoka India Representative.

## Activism in the citizen sector

**B**ANDANA Purkayastha, a professor of sociology and Asian American studies at the University of Connecticut, provides financial support to an educational institution, a hospital, and a women's micro-enterprise in West Bengal. "I see several ways in which people in the US are engaging in so-

tions in civil society to both deliver services to their clients and represent the client's interest in political discourse," says Frank DeGiovanni, director of the Foundation's economic development in New York. He points out that the Foundation has spent \$500 million in India over the last 50 years and has an annual budget of \$15 million in grants. "We've been spending close to \$2 million a year in microfinance, and \$2.7 million for fiscal 2007."

Ajit Kanitkar, a program officer in New Delhi, says the Foundation is increasingly encouraging its grantee organizations to diversify and broad-base their funding. "We don't want to be in a situation where The Ford Foundation is the sole contributor. We want to leverage resources—if the Foundation has contributed one, we expect the organization to raise three or four times the resources through the state government, or the central

goal is to help our partners grow ten times in five years and reach at least 100,000 clients. We're also demonstrating to the capital markets that microfinance can be a sustainable, poverty-focused business opportunity, not a charitable activity. Ultimately, like venture capitalists do, we partner with great entrepreneurs—their vision, their execution ability and their passion."

UEF's microfinance partners include well-known names such as ASA-GV, which received \$862,000 as of March 2007, Bandhan (\$76,000), BSS (\$110,000), Grameen Koota (\$46,000) and SKS (590,000). The fund does not publicly disclose its expected rate of return. However, each of its partners, says Farias, has already met UEF's expectations. "Our partners have innovated in the development of new financial products (insurance and pension plans), microfinance plus services (health facil-

fund. However, we are not interested in maximizing financial returns on our investments. But we do want our capital back," says David Kyle, COO of Acumen Funds. "In trying to prepare Indian ventures to survive on their own and operate in the capital markets as independent entities—they have to learn the discipline of taking in borrowed capital, using it productively to grow the organization and returning it to the industry. That's a very different model than grant-driven growth. There is a lot of planning and cash-flow modeling in their being able to accomplish this."

He points out that the fund in India currently totals \$8 million, up from \$1.7 million in 2005, with a substantial pipeline of \$20 million in health, housing, water and energy.

"Our exposure in India is predominantly in health. We make investments which help in the distribution of existing goods and ser-

Harvesting bananas on The George Foundation's 200 acre banana and grape vine farm on the Tamil Nadu/Karnataka border



PHOTO COURTESY: GEORGE FOUNDATION

cial entrepreneurship in India," she says. "One of the most recognizable models is where people finance a series of projects—education, healthcare etc. The other, slightly less recognizable model is where people donate their time. For example, doctors provide free care or free training for X number of weeks; college students volunteer in organizations. If you can demonstrate that something is working, there is a strong possibility that you will get some local resources as well. For example, the government could provide land for the next venture or institute a free food program for schools. In other words, after a while, these social projects are simply not just financed by people from here. There are also resources coming locally, so it becomes a sort of joint venture."

One of the ventures that Purkayastha and her network of women of South Asian origin in Connecticut support is a women's micro-enterprise project in a village located outside Santiniketan in West Bengal. The group of Connecticut women helps sell kanta saris made by the local village women at prices that are fair in the US. "The profits go to the women's group and they have used that money to expand by leaps and bounds," says Purkayastha.

## Building capacity in civil society

**T**HE Ford Foundation, which was established in India in 1952 at the invitation of Prime Minister Jawaharlal Nehru, remains the largest of its overseas field operations. "Much of the work that we do is to try to build the capacity of critical organiza-

government or through other donors and private foundations such as Ratan Tata Trust and Dorabji Tata Trust."

During the last five years, the Foundation has focused on trying to build the philanthropic sector in India. "We are trying to encourage wealthy Indians to contribute to philanthropic activities and create their own family foundations," says DeGiovanni.

"Our role is to support cutting edge ideas and risk-taking initiatives," says Kanitkar. "A social entrepreneur is a person who has ideas ahead of time. Our task is to identify these individuals and help these ideas get organized into an institutional mechanism."

## The poor's access to capital—microfinance

**E**STABLISHED in 2006, Unitus Equity Fund L.P. (UEF), affiliated with the Redmond, Washington state-based nonprofit Unitus, is a \$23.4 million private equity fund which invests in emerging microfinance institutions in Asia and Latin America. Ten of UEF's 16 microfinance partners are located in India, and of its global partners' two million clients, roughly 1.75 million are in India. UEF is set to add new partners in India in the next few months, which will further extend the Fund's geographic reach.

"Working with our partners in India and in other countries, Unitus provides capital support (grants and debt) and also strategic consulting in areas such as hiring and growth planning," says Sandeep Farias, chief innovation officer and country director, India. "Our

ities), in business models (urban microfinance and the use of technology) and are working in geographies across the country—Karnataka, Tamil Nadu, Andhra Pradesh, Maharashtra, Assam, Orissa and Gujarat."

He points out that interest rates vary, but are around 20 percent a year in South Asia. Loan sizes also vary, but are approximately between \$50 and \$150 in India. The risk is minimal, says Farias. "Microfinance loans have a very high repayment rate, higher than 95 percent. Our partners often rely on social collateral, where a borrowing group works together to ensure that each member is keeping up with their payments."

Farias expects to end the year with about 14 partners who serve more than 2.6 million clients. "We would like these partners to cumulatively reach in excess of 10 million clients in the next five to seven years," he says.

## Venture funds for social entrepreneurs

**A**CUMEN Fund, a nonprofit global venture fund that uses entrepreneurial approaches to find solutions to global poverty, was established in 2001 with seed capital from the Rockefeller Foundation, Cisco Systems Foundation, and three individual philanthropists. The fund's investments focus on delivering affordable, critical goods and services, such as healthcare, water and housing, through innovative, market-oriented approaches. The fund's target market consists of individuals living on less than \$4 a day.

"Acumen operates like a venture capital

services," he says. "For example, we've invested in an organization called Medicine Shoppe (India) that is creating a rural network of pharmacy chains. We've invested in Scojo (Foundation) which sells inexpensive reading glasses that cost \$2 to \$3, in several states in India."

The fund has invested in eight Sehat healthcare centers that target customers who earn an average of \$100 to \$150 per month. The clinics are affiliated with vision centers and pharmacies which dispense generic medication. The fund has also invested \$1.5 million in the first private sector ambulance company in Mumbai, which handled 20,000 calls in 2006, of which 20 percent were attended to free of cost.

## Safe drinking water

**M**ULTINATIONAL companies, especially beverage companies like Coca-Cola Co. and PepsiCo, are under intense pressure from non-governmental agencies (NGOs) to incorporate the availability of safe drinking water in the communities they operate. This is where John Oldfield, director of partnership development at Water Advocates in Washington, DC, steps in. A matchmaker of sorts, Oldfield offers pro bono consulting service on water, sanitation and hygiene in the developing world and matches multinational companies with implementing organizations that implement safe, affordable and sustainable projects that take into account the poorest of the poor. "Say a big

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chemical plant wants to ensure safe water in Andhra Pradesh, we identify the most appropriate implementing partners," he says. "Water and sanitation is primarily a gender issue throughout the developing world. If a project does not appropriately incorporate women into the village water and sanitation committee, we are unlikely make that match."

According to Depinder S. Kapur, country representative of WaterAid India (WAI), WAI encourages the growing trend of social entrepreneurship in WatSan projects in India by supporting community-based action and civil society leadership in influencing the effective utilization of government funding for the sector. "We try and negotiate space for community-led alternatives in the critical areas of water quality monitoring, maintenance of hand pumps, and community toilet blocks. Through Self Help Groups and Federation of women groups, we try to leverage government funding and support capacity building as a core input of our work," he says. "Our policy advocacy work looks at citizens' action (and) integrated water resources management. Campaigns and focused action through public hearings and social audits are effective social entrepreneurship engagements of WAI in (the global) WatSan (initiative)".

## Charity creates economic sustainability

IN March 2007, the Mata Amritanandamayi Center (MA Center) in Kerala, India, announced an aid package of \$47 million, raised from donations around the world, to help rehabilitate farmers and their families in communities across Southern India that were devastated by the systemic suicide of farmers. Volunteers at the Center are in the process of empowering the first batch of 5,000 women from farming families with the means to earn supplemental income. "We give around \$300 to \$400 (to these women) to start a business, as well as (provide) vocational job-training," says Mata Amritanandamayi via her translator Swami Amritaswarupananda. Additionally, the Center provides free, quality education to 30,000 children of farmers in the hope of providing them with an opportunity to transition from farming to other, more viable occupations.

## Social entrepreneurship in education

IN his book, the *Global Education Industry*, James Tooley examines the economic viability of entrepreneurial ventures in education in India. The success of private budget schools across the country is a promising development. For example, the Admar Mutt Education Council's Poor-naprajna Education Center runs a nonprofit, self-sustainable rural school in Shreekrishna Nagar, Karnataka, where the students are primarily the children of local farmers and auto rickshaw and bus drivers, who pay Rs 575 per month, per child (high school), out of an average monthly income of around Rs 5,000. "The parents are sacrificing to provide their children with a good quality, English-medium education, even though they can get free education from the government, because they don't want their children to become farmers and auto rickshaw drivers like them," says Dr K. Srihari, honorary secretary. "They want their children to become engineers, that too software engineers. And many of these students have obtained admissions in good colleges."

Under the existing financing model for educating the poor, the government gives money to government schools which then pro-



PHOTO COURTESY: ACUMEN FUND



PHOTO COURTESY: THE FORD FOUNDATION

(Top) the Acumen Fund invests in Mumbai's first private ambulance company; the Ford Foundation supports a micro-enterprise in India

vide free education to the poor. The Center for Civil Society in New Delhi is advocating for a voucher system, where that money is given to the parent and not to the school. "The parent can now take the money and send the child to a school of his/her choice. The money follows the child—'dollars follow scholars.' Since the power of choice is in the parents' hand and not in government's, social entrepreneurs see an opportunity to provide the type of education that the parents want, who now have the power to pay for that private education," says Parth J. Shah, president, Center for Civil Society. "The poor enjoy a choice as the rich do today, thanks to social entrepreneurs who are willing to serve them. Our campaign slogan is Fund Students, Not Schools!"

He points out that at the crux of the idea of school vouchers lies a larger vision that demands more accountability from schools, particularly government schools, toward parents. The Center believes that the choice and competition that would result from an introduction of vouchers would help provide universal

access and higher quality of education to all. "In the present system, the schools are accountable to the government and not to the parents. The voucher system makes schools accountable directly to parents since they now have vouchers in their hands, empowering them to reject one and select another school," says Shah. "As a Dalit leader said on hearing the voucher idea, 'This is genuine empowerment. With a voucher in my hand, I can make schools dance to my tune.'"

## Market's role versus government's role

IN a country that still retains socialistic ideals, can social entrepreneurship, modeled closely on capitalistic principles, succeed? Nobel Laureates Friedrich Hayek, Milton Friedman and James Buchanan would say the more the government gets out of the business of providing goods and services—including education and health-care—the higher the chances that social entrepreneurship will succeed. "Indians living

abroad and returning funds to provide education and drinking water are certainly benefiting persons (in India) who desperately need assistance. To the degree that they bypass the governments involved, they increase the likelihood that the aid will actually reach those that need it, rather than be diverted to the politically well-connected," says Dr Alan Lockard, a former student of Buchanan and a professor of economics at Hampden-Sydney College in Virginia. "The most promising innovation in permanently lifting persons out of poverty, however, is the explosion of microfinance enterprises. This, along with the clarification and formalization of currently informal property rights advocated by Hernando DeSoto, represent the best hope for most rapidly bringing less developed nations up to the standard of living enjoyed by the more developed nations."

Dr Howard Baetjer, professor of economics at Towson University in Maryland, believes that the first thing that needs to be done in a country like India is for the government to get out of the way of people taking the steps they need to take to create enterprise. "All the licensing, permits, quotas—I understand from authorities that I trust, that there is in India, a terrible burden of restriction on who may start businesses and under what condition." When asked whether the free market, capitalistic model will work in favor of the poor, he responds, "Absolutely! The problems are not attributable to the fact that we have so much freedom of markets, but that we do not yet have enough freedom of markets. For Indian people to say 'Look, we've tried free markets and it's not working for the poor' is absurd because India is so far from a free market. You cannot blame the slow progress for the poor on free markets. I'm not suggesting that social policies for the poor be eliminated all at once. Free markets are really the only way out of the grinding poverty that so many people experience. But I don't suggest the transition will be easy."

Others, like Dr Pravin Krishna, professor of economics at Johns Hopkins University, advocate a mixed role. When asked how well the private sector can provide services, such as education, healthcare and infrastructure development, that have been traditionally provided by the government, he says, "Some of these might be areas which, depending on the density of the population, maybe the private sector gets in and does a better job than the public sector. In some areas it may simply be that the private sector is not interested in getting in from a purely profit-maximization perspective."

He points out that social entrepreneurship will not solve all of the massive problems in India. "Is this an overnight solution, a silver bullet? No! It's not as if encouraging entrepreneurship in itself is going to improve society. One has to ensure that the funds made available go to the worthiest projects—whether it's government or private. It's not enough to have your heart in the right place. It's largely a matter of implementation, and that's where the problem lies today."

Farias of Unitus Equity Fund believes that the Indian government must better recognize the strong role that social entrepreneurs can play in the economy. "I think greater recognition that social enterprises could have a role in solving social issues will go a long way. We need to create an environment where entrepreneurs feel confident that they will not face any obstacles if they develop business models for the benefit of the poor," he says. "For scalable models that attack core social issues or dimensions of poverty, we need entrepreneurs with a commitment and passion to make a difference—and we need to ensure that regulation or legal structures do not limit this."

