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# A Capitalist's Guide to Social Business

A market based approach to philanthropy, with one eye firmly on the bottom line, can be an effective way for entrepreneurs to meet their social goals. Ahona Ghosh and Gauri Kamath take a close look at three such models of philanthro-capitalism.

Five years ago, Google placed for-profit philanthropy on an entrepreneur's agenda when it created a division to tackle issues like climate control, poverty and emerging diseases. The founders of Google who led the philanthropy with \$1 billion in seed money, but for-profit motive would grow the charity more effectively in areas like finding start-ups and attracting venture capital.

The wood industrialists are working on similar lines in social business. K Anil Reddy has a project to provide villages with pure drinking water. Ajay Piramal too has a similar venture, along with a low-cost healthcare delivery model and a rural IPO. All these are for-profit ventures, though that does not make profits an imperative. The first priority is to get social returns. After all, a social business is one in which investors measure returns in terms of the company's impact on society and social goals. And while they are on the look of improving access to drinking water or to basic healthcare, they expect a small return on investment or at least hope to recover their invested capital.

But as Gauri Kamath and Ahona Ghosh point out, the for-profit model has its advantages in business, and growing the bottom line does not have to be the most important one. A for-profit firm helps an organisation function like a corporation would—start-up companies, finance them, grow them, call in external investors and scale up the venture, and in the bargain if you make a profit, that's a job well done. We take a look at three such for-profit ventures that are attempting to make a difference to people's lives in India.

PROJECT Purifying water in villages ORGANISATION Naandi Community Water Services



NEW PACKAGING: NCWS is the for-profit avatar of what began as a charitable initiative in 2006 within an NGO founded by Anil Reddy

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When three well-known Indian businessmen—Anand Mahindra, vice-chairman of the group, and MD, Mahindra & Mahindra, and Ravindra Prasad Maganti, chairman of infrastructure company—Soma Enterprises, the trio, along with Shree Group of Companies, the social enterprise incubator of Parasbase Group of Companies, have invested in Naandi Community Water Services (NCWS) to supply safe and affordable drinking water to Indian villages, at a nominal price. NCWS plans to run at least 700 community-owned water purification plants across India by March 31, 2012. It runs 466 such facilities currently, the largest installed base of community water systems in the country. NCWS is the for-profit avatar of what began as a charitable initiative in 2006 within Naandi, Hyderabad-based NGO of which Reddy is founder chairman and Mahindra and Maganti are its trustees. The initiative involved operating and servicing water purification plants in villages, set up with government funding by charging consumers a user fee. In April 2010, this activity was spun off into a social business. "This is a serious service...you

need a team with an entrepreneurial outlook that is driven by passion, efficiency and the creation of an economic surplus," says Dr. Reddy. "And given that this service is side drinking water, this is the best model."

The model will help "create impact on an even larger scale," adds Mahindra. It will also help fund raising, appeal to talent managers with business experience in the social sphere, create incentives to ensure viability of each water centre and reinforce the voice of consumers as customers, he explains. Donors.com, a social enterprise, has set up a fund to support the investor in June 2011 and owns 49% of the shares. The three Naandi life trustees hold 17% each. Naandi CEO Manoj Kumar says the investments are relatively small since the model is not about "creating water plants but servicing them." But it can help "solve the drinking water problem" in the country, he says. NCWS, also benefits from Donore's expertise in quality assurance, supply chain management and inventory control. Kumar says, "As of late last year, NCWS had made purified drinking water available to 2.1 million

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PROJECT Reducing indoor air pollution, helping poor rural farmers by promoting ethical trading, providing energy access to the poor and developing sustainable urban transport solutions.

ORGANISATION Shell Foundation WHY FOR-PROFIT "Social and financial returns are both important... We are looking at the poor person as a customer and not a beneficiary."



LIMITED IMPACT: Anuradha Bhavnani says results don't meet with plain-vanilla charity, as "there are simply not enough grants available"

When Shell Foundation was founded in 2006, it began by providing short-term, project-based support to multiple not-for-profit organisations. However, the UK-registered charity of the Shell group discovered that 80% of its initiatives failed to achieve scale or sustainability. This was either because of poor execution or the lack of market demand for the proffered products and services. Shell Foundation daily changed its strategy to focus on identifying new business models by developing new business models with strategic partners. Its fortunes have since turned around—and how. Today, 60% of the ventures in which it has invested have achieved scale, and these projects have been able to leverage \$1.2 billion in financing. Another investor company is Envirotiv India, which manufactures improved cook stoves. These stoves aim to reduce indoor air pollution and improve the health of rural people who live in poorly ventilated homes.

The whole approach is market-based, and we are looking at the poor person as a customer and not a beneficiary," says Anuradha Bhavnani, Regional Director of Shell Foundation, India. Last week, the Foundation announced its for-profit model of philanthropy in India. According to Bhavnani, history has shown that results don't last with plain-vanilla charity as "there are simply not enough grants available." So, there was a need to approach philanthropy for Shell in solving developmental issues through the creation of scalable, sustainable enterprise-based solutions. The Foundation India has committed \$16 million to the eight enterprises it supports. "Social and financial returns are both important," says Bhavnani. As investors with business partners Shell hopes to achieve its twin targets of scalability and profit, which will ensure sustainability in the long run. Targeting financial viability means less reliance on aid, growth benefits more people, and the accompanying innovation means the enterprises are able to provide customers with more affordable goods and services. Shell brings two benefits to its portfolio of eight investee companies. One is giving money and the other is handholding these businesses to implement best practices and scale up. The staff at Shell Foundation all come from business backgrounds and have extensive business experience. "When necessary, we also tap into the parent company for advice on legal tax or HR issues, and ask them for advisory time," says Bhavnani. One of the Foundation's investments is in rural electrification company Husk Power Systems (HPS), to which it has

committed about \$1.5 million since 2008. HPS today owns and operates 60 small-scale power plants that convert waste biomass into sustainable, non-polluting and affordable energy which is lighting up villages and improving livelihoods. The business has brought electrification to 125 rural villages impacting 500,000 households in rural Bihar; the plan is to reach 2,000 villages by 2014. Shell is helping HPS open a Husk Power University in Bihar to train and mobilise workforce in this field and develop new technologies. The Husk Power University which will be developed by 2012, will serve as a training facility where people will become skilled in large engine repair and maintenance, facility management, and continuous improvement processes. Another investee company is Envirotiv India, which manufactures improved cook stoves. These stoves aim to reduce indoor air pollution and improve the health of rural people who live in poorly ventilated homes. Scaling up this company, however, was challenging. The first challenge was to raise awareness among the villages folk about the benefits of cook stoves—a traditional habit has that can cause various respiratory ailments and pollution. Second, rural profit needed to be in line with the situation and self-help groups to secure costumer financing for poor customers. The basic model of cook stoves is priced at Rs 800 and the higher end costs Rs 1,400. The bottom-of-the-pyramid consumer will not be able to afford the product at these prices," says Bhavnani. So, Shell is working with Envirotiv to bring prices down into its 500 territory. The Foundation is also pitching in with technology to improve efficiency levels and bring manufacturing costs down. The third challenge was to develop a distribution network to reach the smallest set of villages. A stumbling block, though, is the weight of the cook stove. One way to overcome this problem is to form partnerships. For instance, pilot programmes are under way with a rural logistics company called Dharma, which is mapping out a financially viable distribution model to scale up in the country.

# The Onus of Ownership

A year ago, Ajay Piramal cut the deal of his life when he sold his domestic formulations portfolio to Abbott Labs of the US for \$3.7 billion. These days, the chairman of the Piramal group is busy with an unlikely bunch of businesses—social ventures with a profit motive. "For-profit ventures are more effective in getting more customers and delivering high-quality service at minimum costs," says Piramal. The purpose of generating profits is simple to scale up the ventures and make it self-sustaining. "We cannot keep funding losses as we have finite amount of money," says Piramal. The Piramal Foundation, Piramal's main vehicle for charity, has spun off three social ventures since 2008. Piramal Water was carved out from a charitable drinking water initiative in Sivaswathi, a low-cost healthcare company based on telemedicine. The Foundation's third business venture is a rural business process outsourcing (BPO) unit, providing livelihood options to rural Rajasthan women. All these companies are now wholly owned by Piramal Enterprises—the Foundation cannot own equity stakes because of its non-profit status—thereby giving the promoters a sense of ownership. Says Noshir Dadrawala, CEO of Center for Advancement of Philanthropy in India, "Unlike giving a one-time grant to an outside charity being a stakeholder in enterprise ensures the money will be utilised properly."

Another effect of for-profit model is that all entrepreneurs—in this case, franchisees who run the water purification centres—become a part of the business development process and feel a sense of ownership. For instance, each water filtration machine costs Rs 2 lakh. The franchisee has to bear part of the cost and come up with Rs 40,000. After deducting all costs, franchisees are left with a monthly income of between Rs 7,000 and Rs 8,000. The urge to break even is strong among them as they can then return to scale up. Each franchisee services 100 families per day and generates 2,500 to 3,000 litres of purified water per day. This gives them revenues of Rs 19,000 per month. The customer pays Rs 30 paise per litre of filtered water. "We serve 100 families per day across our 125 centres of Piramal Water," says Arand Shah, CEO of Piramal Water. The target is to spread to 500 villages and serve 500,000 people per day. In the next five years, Shah wants to reach out to 10 million to 20 million people per day. That might sound ambitious because Piramal Water's 30 paise per litre is expensive for the poorest of the poor. Piramal does not take any government subsidy to set up the infrastructure but funds it jointly with the franchisee. "I don't have a solution to this consumer financing problem, but that is my next big project," says Shah. Piramal's healthcare initiative, Sivaswathi, has reached 60,000 centres in Rajasthan's Churu district. Today Churu has several telemedicine centres run by a swasthya ashika (health helper), a local village who is treated rigorously for a week.



SPIN OFFS: The Piramal Foundation, Ajay Piramal's main vehicle, has spun off three social ventures since 2008

PROJECT Pure drinking water: low-cost healthcare, rural BPO ORGANISATION Piramal Enterprises

WHY FOR-PROFIT "For-profit ventures give a greater push in getting more customers and delivering high-quality service at minimum costs."

AJAY PIRAMAL, Chairman, Piramal Group