

Chazen International Study Tour Report Enterprising India: Profits and the Poor

DIMITRA DEFOTIS MS '08
Columbia University Graduate School of Journalism

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Chazen International Study Tours

Designed to enhance the classroom curriculum, Chazen International Study Tours offer students and their faculty adviser an intense, firsthand experience of the business culture of their chosen country or region. Study tours are initiated by students and organized with the help of the Jerome A. Chazen Institute of International Business. During study tours students meet with leading executives and government officials while visiting businesses, factories and cultural sites. Destinations change yearly, as study tours are student-initiated. Recent destinations include Brazil, China, India, Japan and South Korea.

Executive Summary

India has leapt headfirst into capitalism since the 1990s, with entrepreneurs challenging the status quo in poor communities where cooperative models have ruled. Make no mistake: the legacy of castes and a geographical maze of language and culture contribute to the wide gap between rich and poor. Yet a burgeoning list of for-profit corporations including ICICI Bank, microfinance organizations such as SKS Microfinance and social-enterprise efforts like those at retailer Fabindia are lifting standards across India with entrepreneurial solutions to healthcare, financing and livelihoods. Columbia Business School students saw a sampling of these efforts firsthand in the cities of Mumbai, Delhi, and Hyderabad and in the rural environs of Hathras.

Economic Growth

India's economy has been growing at a roughly 9 percent clip, boosted by technology companies, banks, and other services businesses, which now account for roughly 55 percent of the country's gross domestic product. Equally strong is the industrial sector. More than half of India's population ekes out an agrarian existence, often on a tiny plot of land. But agriculture's share of the economy has been shrinking in recent years, now accounting for roughly 19 percent of India's economy, according to the Indian government's Ministry of Finance statistics. Farmers may contemplate moving to urban areas, but India's biggest cities are already teeming and, in poor sections, lacking in infrastructure.

Optimists point out that India's population—approximately 1.1 billion people—has been growing at a slower pace, while literacy, productivity and wages continue to rise. If rapid economic growth continues as it has since socialism's controls on the private sector began to give way, India's per capita income should catch up to that of the United States over the next 50 years, according to Gurcharan Das, the former CEO of Procter & Gamble India.

While India's stock market has fallen from recent highs as economists ponder a global slowdown, entrepreneurs focused on domestic opportunities are plowing ahead. Das thinks money will continue to flow to India's investing opportunities. His tip to entrepreneurs: "Start a school in India and franchise it like McDonald's. That's the big opportunity." Das, who documented India's social and economic transformation in the book *India Unbound*, summed things up for the study tour's students this way: "India's story is not new, but the world has just now discovered it."

Dharavi Redux

While for-profit efforts to help the poor are raising living standards across India, profit seekers and the poor are facing off in Mumbai's Dharavi slum, billed as Asia's largest.

Hedge funds are drooling over the redevelopment opportunities on Dharavi's prime real estate, where prices rival those in New York. The government owns a significant portion of Dharavi and is pushing a plan, with developers, to transform Dharavi into a shining, modern jewel. But controversy has dragged on regarding how much land should be sold at market rates and how much should be set aside for slum-dwellers' homes, schools and businesses.

Within Dharavi's confines live an estimated one million people; there is one toilet for every 1,400 individuals, by some estimates. Not everyone has, or pays for, electricity. Yet Dharavi produces millions of dollars in goods at sophisticated enterprises ranging from recycling centers to pottery factories. And rail lines crisscross the area, once a marshy fishing village.

One-time squatters who own Dharavi property fear they will get less floor space for their businesses in newly developed industrial buildings. Many more Dharavi residents have little more than a plastic tarp over their heads at night. Activists say the capital-spending plan will hurt rather than help the poorest residents. "Models for fast development are at the expense of the poor," said Sheela Patel, founding director of the Society for the Promotion of Area Resource Centres (SPARC), an international nongovernmental organization (NGO) working with local advocates for slum dwellers' rights. "I have been speaking to hedge funds. I tell them, 'We will hold you responsible.'" Leaders of SPARC say adamantly that residents support redevelopment but want to get to their jobs in the interim and return to commensurate real estate.

Urban Healthcare

With so many urban Indians living in extreme poverty, it may come as no surprise that using an ambulance to get to the hospital is uncommon. Even middle-class Indians typically drive themselves to the hospital in an emergency. Hearing a siren call—a sound rarely heard on the roads of Delhi or Mumbai—a handful of young entrepreneurs established a private-sector approach to emergency medical care called 1298 Dial for Ambulance. Founders pooled \$450,000 of their own money to fund the first Mumbai ambulance.

With a \$1.5 million cash infusion in 2007 from Acumen Fund, a nonprofit venture fund that invests globally in market-oriented delivery of critical goods and services to the poor, the founders are using quantifiable metrics to monitor 1298's sustainability and social impact. From

a small call center, 1298 now operates a fleet of 50 bright-yellow ambulances. The dream: a national ambulance service. The founders are considering franchises. For now, they are hiring marketing firms to promote expansion plans. Patients pay on a sliding scale, with those going to more expensive hospitals paying a premium; leaders estimate 15 percent of calls are subsidized or free. But with advertising on ambulances, 1298 is able to provide services at half the rate of private ambulances. And the competition, with older vehicles, typically lacks trained technicians to take patients to the hospital.

Setting up the model was challenging: finding qualified employees is tough, and traffic in big cities like Mumbai is formidable. Initially, customers who could afford to pay took advantage of subsidized rates. “Nine out of 10 people discouraged us,” says Sweta Mangal, a founder and marketing director who earned her MBA in the United States. “But people need an ambulance in pregnancy and other situations. There is a market.” As the number of ambulances grows, more investors have expressed interest. But the founders are unwilling to give up too much control.

Acumen also entered into a joint venture with a \$2 million investment in LifeSpring Hospitals, a chain of small hospitals targeting low-income, often illiterate women with affordable prenatal care and customer service. Disease affects the poor disproportionately, and women regularly die from preventable pregnancy-related complications. LifeSpring is attempting to provide moderate prices for delivering babies and performing surgeries, such as hysterectomies. LifeSpring can cut costs on expensive equipment with its purchasing power. It outsources lab services so that hospitals can focus on care. There are plans for electronic patient files at the Hyderabad-area hospital students toured. There, 12 nurses are on staff, and at least three are on duty, along with a doctor and a gynecologist. Occupancy rates have increased from 40 percent to 60 percent, and the company is now considering a public offering.

Healthcare became an additional focus nearly two years ago for the American India Foundation (AIF), building on its education and livelihood-development projects and partnerships aimed at social and economic change in India. AIF leaders say the state is too unwieldy to implement programs needed to reach those most in need. With partner NGOs, AIF conducts healthcare programs that focus on prevention of a long list of diseases, including HIV/AIDS. New programs are focused on improving the health of women and children, with programs addressing reproductive and maternal health, anemia, nutrition and water-borne illnesses.

AIF leaders also are trying to step in where state programs aimed at rural education and Muslim minorities are inadequate. In some regions, parents don't send girls to school. A staggering

55 percent of the illiterate in the world are in India, and 45 percent of teachers do not have a college education, according to AIF. In terms of job-training programs, AIF supports a cooperative concept to improve the incomes of bicycle-rickshaw drivers, who it estimates number roughly eight million nationally. Most drivers have no insurance or benefits and pay high daily fees to lease rickshaws. The result: they pay for the vehicle many times over to mafias that wield control. AIF supports a partner organization that makes loans to the drivers so that small groups of drivers can purchase rickshaws and repay loans with regular installments. The borrowing and collection system functions within existing social frameworks to discourage defaults. The hoped-for result: drivers who not only own their vehicle, but have the means to obtain insurance, cell phones, uniforms and a sense of pride.

Electronic Farming

India's farmers, like rickshaw drivers, often find themselves beholden to a local go-between. While agriculture is a shrinking piece of India's economy, farming accounts for a staggering 65 percent of employment because many people eke out a living on a tiny plot of land, says Shankar Venkateswaran, executive director—India at AIF. Poor farmers have remained fragmented players controlled by intermediaries who make loans to farmers and purchase crops from them but who often withhold payment or skim profits. Unexpected weather and crop failures can compound the risks and challenges that farmers face.

ITC, one of India's largest private-sector companies with a very diverse portfolio of business interests, uses its growing agribusiness division to help farmers improve crop quality and production. But as students witnessed in a meeting with S. Sivakumar, chief executive of the company's agribusiness division, ITC also is committed to improving the lives of India's farmers beyond such assistance by operating e-Choupal, a competitive-market concept spreading efficient pricing to thousands of farm villages across India. ITC provides a village-appointed leader, called a sanchalak, and a computer with Internet access. Absent a blackout, the sanchalak shares up-to-date information with other farmers on crop prices, weather, crop nutrients, crop testing and risk management. ITC estimates it purchases crops from about 38,000 villages. With more than 6,000 computer kiosks now set up, it can improve productivity and livelihoods for roughly 3.5 million small farmers.

“Caste barriers have been entrenched for centuries. But now, many people go into the sanchalak's house irrespective of their caste,” says Sivakumar of ITC. Columbia students saw that farmers who come to ITC's market in Hathras, about four hours outside New Delhi, also get

a dose of consumerism: a place to buy clothing, housewares and relatively expensive electronics, like televisions.

E-Choupal faces some risks. Government competition is possible, as is meddling from the local market middleman, or mandi. Abuse of power by the village-appointed sanchalak is possible, too. Eventually, even more farmers are likely to participate as the pricing moves to text messaging on cell phones. “What drives me and excites me should drive anyone—shareholder value through serving society,” says Sivakumar. “Traditionally, taxes paid for societal welfare. In that philosophy, we were not living in a happy world, given the skewed distribution of wealth.”

While poor farmers are typically men, for-profit lender SKS Microfinance has targeted women exclusively in making more than \$480 million in loans since 1998. Why women? According to the SKS Web site, the firm “currently only targets women both because they are the most marginalized and because they tend to use resources more productively than men.” SKS says women are much more likely to reinvest income for the benefit of an entire family. More to the point: default rates for loans to men are higher. Loans are often as small as \$25, and they fund enterprises from raising goats to vegetable vending to beauty parlors. For those capable of making weekly repayments, household income increases and other benefits ensue, including greater food security and the means to educate children, according to SKS. The firm boasts a 99 percent repayment rate, meaning that the 1.6 million women in poor regions of India it has targeted are more than willing to pay a 28 percent interest rate. That rate includes a 12.5 percent cost of funds from loaning banks, 8.5 percent for staffing and 3 percent for overhead.

Founder and CEO Vikram Akula’s lofty goal is a membership of five million by 2010. Leaders in the SKS Hyderabad office told Columbia students that every month SKS opens 45 branches and trains 200 new loan officers. Additionally, the firm is deploying technology to automate transactions and lower costs.

India’s largest private-sector bank, ICICI Bank, is also stepping up its commitment to microfinance by creating a foundation and seeking external investors to find market-based solutions to poverty. Its hope is that by 2010, a multibillion-dollar fund will be working to finance small-scale entrepreneurs in sectors that “matter,” from food production and waste management to crafts and rural tourism. Keeping people outside of big cities employed close to home, and with sustainable pay, is a key objective for fund organizers.

One current beneficiary is the Sandhi Craft Foundation, which is attempting to develop livelihoods for producers of handcrafted products who don’t have markets. Sandhi provides

oversight for efficiency, quality and productivity, helping individuals with production schedules, ordering and even style trends. Sandhi sells the goods through retail and wholesale outlets and has used financing from the ICICI Foundation to help weavers and clothing makers with limited access to capital.

In a similar fashion, New Delhi–based Fabindia, a producer and retailer of traditional Indian garments, has been working to connect fabric and clothing makers with markets since the late John Bissell founded the company in 1960. Today, Bissell’s son William is CEO, and the focus is selling to India’s middle class, which has more disposable income than ever. Fabindia’s prices are high by Indian standards, but Bissell says Indians’ salaries have been increasing at a 20 percent clip, while Fabindia prices are up less than 10 percent.

And the company’s profits are on the rise even though there are significant working-capital needs to keep clothing flowing into warehouses. Bissell estimates that with retail competitors at high valuations, Fabindia could be worth \$250 million, but he dismisses the idea of an offering and focuses instead on a mutually beneficial relationship with rural entrepreneurs. “India is shining,” Bissell says, “but a part of India is not part of this growth story.”

Conclusion

More than ever, there is money for an entrepreneur in India from the lowest caste to produce milk, sew a garment or even open a store. The question remains how India’s government will respond. Across India, not-for-profit leaders and microfinance lenders expressed frustration over fickle policies. On the subject of health, regulators should consider international standards for ambulances that broaden paramedic duties. India’s politicians should study the giants of for-profit microfinance who are using community networks to spread wealth where other programs failed.

And all eyes will be on the Mumbai government as it weighs profits from redeveloping the Dharavi slum against the problems relocation imposes on residents. India as a whole will have to grapple with the social impact that consumerism and increased wealth have on families and cooperative business models. One thing seems certain: greater individual financial freedom means greater demand for everything from shampoo to the franchised schools Gurcharan Das suggests. That should produce more jobs and lift more people out of poverty. For now, it is full speed ahead on the road to prosperity, especially for the poorest of India’s poor.