



## Creating Shared Value in India:

How Indian Corporations Are Contributing to Inclusive Growth While  
Strengthening Their Competitive Advantage

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## Foreword: Michael Porter, Professor, Harvard Business School and Co-Founder, FSG

In January of this year, Mark Kramer and I published “Creating Shared Value: How to Reinvent Capitalism and Unleash a Wave of Innovation and Growth” in the *Harvard Business Review*. This white paper is a timely review of how to apply creating shared value (CSV) thinking to the Indian context.

The notion that business can play an important role in societal change is not new. However, moving beyond corporate social responsibility and using core business assets to drive both profit and social benefit is an idea which is just emerging. Nestlé found that working to improve local farmers as suppliers led to a more reliable supply of specialized coffee, while increasing growers’ incomes and reducing environmental harm. The creation of a Networking Academy has enabled Cisco to graduate over 4 million students with training in the latest networking technologies. This has increased graduates’ incomes and job opportunities, while overcoming major limits to Cisco’s growth by creating a stream of highly qualified candidates for employment and driving demand in the network equipment market.

*Shared value is, at its core, a new stage of thinking about capitalism.*

CSV focuses on how we can mobilize capitalism for social change, a sharp departure from former thinking about corporate social responsibility. It is not about balancing stakeholders or

behaving ethically, but rather seeing social problems as representations of business opportunities yet to be met. In rising to this challenge, corporations have discovered innovative products and services with reach far beyond the intended initial target market; they have established distribution networks that reach new customers; they have created significant improvements in productivity and cost effectiveness; and they have unlocked profits and growth by improving the competitive context within which they operate.

Indian companies are uniquely positioned to take advantage of shared value opportunities. India faces significant social problems including poor health, low food security, and widespread poverty. Inclusive growth is a top priority for the nation, and government and civil society are eager to partner in bringing the benefits of economic development to more Indians. India is today producing highly innovative and successful entrepreneurs and corporate leaders. The country offers a tremendous market opportunity for shared value innovation, with a population of 1.2 billion people whose incomes will continue to rise in the coming decades.

Our understanding of the potential of CSV is just beginning. This white paper provides a range of excellent examples of initiatives companies are taking across India to generate economic development and social benefit using capitalism. We hope that these stories encourage India’s business, civil society, and government leaders to consider how the nation’s business assets can best be put to use to drive inclusive growth, and also inspire companies in the rest of the world.

## Foreword: Anand Mahindra, Vice Chairman & Managing Director, Mahindra & Mahindra

The idea that businesses influence the society around them is not new, particularly here in India. India has a rich tradition of corporate philanthropy, and most companies today have CSR programs in place to do what they can to support our nation's development.

However, I believe it is possible for Indian businesses to do more. It is time for us to recognize that the pursuit of profit is not antithetical to the long term economic, environmental, and social development of a nation. The two can, and must, complement and enable each other. Only then can businesses and their stakeholders and communities all share the fruits of prosperity.

India has enjoyed substantial economic growth for several years. To maintain—and increase—this growth, it is critical that we redefine our approach to capitalism so that it reflects the importance of both economic and social value. This is an imperative if we are to achieve our dreams of growth that is truly inclusive.

Inclusive growth is a given. However, inclusivity is only one part of the challenge. Leading Indian companies should adopt a balanced view of shared value creation because it will

*Continued economic growth, regardless of its equity, will be constrained if we cannot begin to turn the tide against widespread hunger, poverty, and environmental damage.*

drive greater competitiveness, especially on the world stage. Business leaders need to remember that the function of a company is to create value. I do not believe you can create real, lasting economic value without creating social value. This is truly a business imperative.

At Mahindra & Mahindra, we believe that in the Indian context, nothing can be a more powerful business strategy than one that combines business and social good. We believe that employees are best motivated when presented with a higher order purpose; a goal that transcends mere profits. We have recently defined our purpose as “enabling people and communities to RISE” and have put this purpose at the centre of our business strategy. We believe that Indian companies can use their core assets, such as employees, technologies, and distribution networks, for ongoing profitability and also to create a better India. The case studies in this paper serve as useful examples as we look to strengthen our long-term competitive position while benefiting the society in which we operate.

India is at an exciting stage of its growth, and I believe you will see cutting edge ideas and approaches emerging from our nation. I look forward to contributing to and learning from this dialogue.

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Detailed case studies are available as appendices to this report. To view the studies, please visit <http://www.fsg.org/tabid/191/ArticleId/493/Default.aspx>.

## Executive Summary

### Now is the time for a new approach to inclusive growth.

Leading companies are finding new ways to accelerate growth and increase competitive advantage through innovative business models that meet societal needs at scale. These companies are “creating shared value” by using their core business processes and practices to enhance the competitiveness of companies while improving social and environmental conditions. The concept of Creating Shared Value (CSV) was introduced by the co-founders of FSG, Harvard Business School professor Michael Porter and senior fellow at the Harvard Kennedy School Mark Kramer, in several *Harvard Business Review* articles (most recently in January/February 2011). FSG’s research in India has identified a number of highly innovative examples of shared value. In this paper, we highlight these examples and call on corporations, especially our largest ones, to lead the charge toward a strategy for growth that benefits all our citizens.

### India has experienced phenomenal economic growth, but that growth has not been inclusive.

In recent decades, India has experienced a rapid rate of economic growth, second only to China among major economies. Although this has led to higher incomes and better health for many Indians, we still have far to go to make this growth truly inclusive. India is expected to fall short on several Millennium Development Goals: by 2015, we expect that 40 percent of Indian children will remain undernourished, and India will have progressed only halfway toward its goals for decreasing infant mortality. Inequality, poor public health, and environmental degradation will increasingly constrain India’s economic growth.

### Corporations play a critical role in achieving inclusive growth.

Government is often seen as the answer to society’s problems, but spending by the Government of India (GoI) alone will likely be insufficient to address these critical issues. The GoI can encourage contributions from the private sector by passing legislation and using its purchasing power to create a supportive, enabling environment. Philanthropy can also help catalyze change, but charity has a limited ability to sustainably achieve scale. The private sector, however, possesses skills and technologies necessary for innovation, and excels at developing sustainable solutions to identified needs and taking such solutions to scale.

### Creating shared value is more effective than traditional approaches.

Corporate social responsibility (CSR) has been the primary mechanism by which Indian companies have contributed to societal development. Domestic corporations have long believed that the purpose of business extends beyond simply generating shareholder value; business should also address social problems. However, much of Indian CSR manifests as philanthropic efforts that target the well-being of

employees and local communities. While these efforts have had important results, they are rarely able to achieve a national effect that is sustainable in the long run. They touch only a fraction of a company's financial resources (often less than 1% of net profits) and rely on limited opportunities for employee volunteerism, rather than capitalizing on the most valuable assets that businesses bring to bear—the full use of their core competencies while in pursuit of profit. As a result, our largest CSR efforts reach hundreds of thousands of recipients, while the need is in the millions.

CSV offers an alternative path. Rather than viewing social needs as the prerogative of solely CSR and philanthropy, CSV focuses on finding the business opportunities hidden in social problems. Issues like poverty, pollution, and poor health are not externalities to be dismissed, but rather core business concerns that have a substantial impact on growth and operational efficiency. When businesses tackle social problems as a central part of their competitive strategy, they achieve large-scale and fundamentally sustainable changes in society.

Porter and Kramer argue that companies create shared value in three ways:

- *Reconceiving products and markets*: Better serving existing markets, accessing new ones, or developing innovative products that meet social needs.
- *Redefining productivity in the value chain*: Improving the quality, quantity, cost, and reliability of inputs, production, and distribution in a sustainable manner.
- *Enabling local cluster development*: Developing a strong competitive context, including reliable local suppliers, a functioning infrastructure, access to talent, and an effective legal system.

### Indian companies are beginning to experiment with creating shared value.

FSG's research into shared value efforts in India uncovered a number of innovative efforts that are creating economic value while contributing to meaningful and sustained social impact at scale. The following pages describe efforts not just by large corporations but also by smaller social enterprises, demonstrating that market-based solutions to social problems can and do exist. We highlight examples across the healthcare and sanitation, agriculture, and financial services sectors. All three sectors face fundamental problems that must be addressed for India to achieve inclusive growth: less than 10 percent of Indians have health insurance; 85 percent of farm households still earn less than \$1/day per capita; and a mere 34 percent of Indians have access to formal financial services.

In healthcare and sanitation, companies such as Novartis India, Vaatsalya, General Electric, and WaterHealth India are beginning to recognize health challenges as business opportunities. They are creating shared value by extending access to medicine to rural areas, developing innovative medical devices tailored to low-income populations, and improving sanitary conditions as well as access to clean drinking water for the underserved. In agriculture, companies such as Jain Irrigation Systems Limited, IKSL (IFFCO Kisan Sanchar Limited), eFarm, and the Gujarat Cooperative Milk Marketing Federation, Ltd. (also known as Amul) are seizing opportunities to create economic and social value by increasing agricultural productivity, creating fair and transparent markets, and collectivizing small and marginal farmers. Lastly, financial services companies such as PayMate, Eko India Financial Services, State Bank

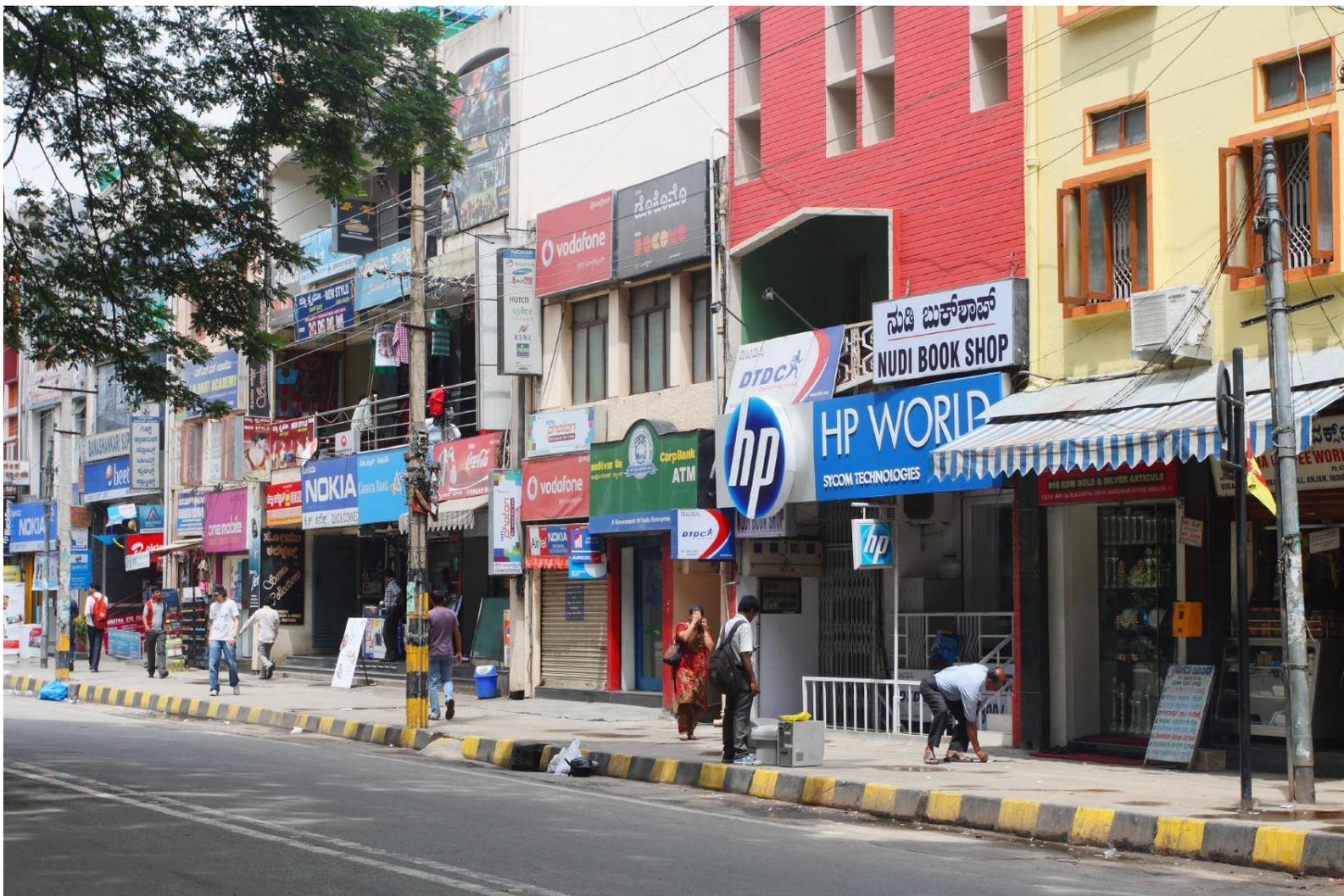
of India, and IFMR Rural Finance are working to bring formal services to the unbanked by providing discrete products that do not require savings accounts, by delivering basic suites of banking products and services, and even by offering financial advisory support. In each case, private sector companies are leveraging their resources to create economic value and deliver social impact with scale and sustainability built in from the start.

In this paper, we also offer thoughts on ways that Indian companies can begin to identify and implement shared value opportunities. FSG's experience working with dozens of leading corporations suggests that making a strong business case internally is a key initial step. Companies can then prioritize activities and establish clear goals for success.

India's strong economic growth, as well as severe social challenges and a national desire for change, put the country in a unique position to show the world how to create shared value at scale. We hope that the examples in this paper inspire companies, government, and civil society to leverage the power of business to achieve meaningful and lasting inclusive growth.

## 1. Indian Corporations and Inclusive Growth

Creating shared value (CSV) is an approach to corporate social responsibility (CSR) that involves creating large-scale and sustainable social impact while strengthening the fundamental drivers of business competitiveness. It is a powerful approach for corporations to contribute meaningfully to inclusive development, while reducing barriers to continued economic growth and long-term business success.



“The prevalent approach to CSR is like rearranging the deck chairs on the Titanic, whereas it is the course of the Titanic itself that must change to avoid disaster and take humanity towards a more sustainable future.”

—Arun Maira, Global Economic Symposium<sup>1</sup>

### India has much to celebrate.

In recent decades, India has experienced a rapid rate of economic growth, second only to China among major economies. As the *Economic Times* noted in early 2011, growth has occurred across sectors and is expected to continue in manufacturing and services.<sup>2</sup> The compound average growth rate for India’s gross national product (GNP) has been approximately 8 percent for the last five years,<sup>3</sup> and despite recent inflation and other price pressures, economists still forecast growth rates of roughly 8 percent per year.<sup>4</sup> The nation has become a key player in the G20, and many Indian firms have successfully tapped into global markets.<sup>5</sup>

### But this growth has been far from inclusive.

Despite strong growth, India is expected to fall short on several Millennium Development Goals.<sup>6</sup> The Government of India projects that by 2015:

- **More than one-fifth** of Indians (250 million people) will remain **below the poverty line**.
- **Forty percent of children** younger than three years old **will suffer from malnutrition**.<sup>a</sup>
- **India will fail to meet its target for decreasing the infant mortality rate** and lose 46 lives per 1000 live births (the target is 26.7).<sup>b</sup>

### This does not augur well for continued economic growth.

Pete Engardio of *Bloomberg Businessweek* sagely notes: “It is instructive to remember that financial crashes, coups, political strife, and plain bad management have derailed many other miracle economies. ... The same huge populations that can translate into economic power for China and India also could prove to be a double-edged sword if social, political, and environmental challenges are not deftly managed.”<sup>7</sup> Such challenges appear in India today. Although greater numbers of students graduate from the nation’s higher education system each year, Indian businesses struggle to hire qualified employees. Lack of quality infrastructure such as roads, railways, and urban planning raises the cost of doing business, constraining local firms and contributing to a slowdown in foreign direct investment. As ITC

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<sup>a</sup> As measured by the proportion of children that are underweight.

<sup>b</sup> The number of children that die every year before reaching one year in age.

Chairman Y C Deveshwar recently told shareholders, “Limits to future [economic] growth will be defined more by vulnerabilities flowing from social inequities, environmental degradation, and climate change than by any other economic factors.”<sup>8</sup>

### Corporations must play a central role.

Government is often seen as the answer, but Government of India (GoI) spending alone is unlikely to be enough. India’s spending on education per capita is roughly 3 percent of the amount the United States spends and less than 20 percent of Brazil’s spending. Spending on health is comparatively worse: India spends less than 1 percent of what the United States spends per capita and less than 10 percent of Brazil’s total.<sup>9</sup> Moreover, the country famously struggles with insufficient infrastructure. According to a recent study, India needs more than Rs. 55,27,200 crore (\$1.2 trillion)<sup>c</sup> for appropriate infrastructure investment.<sup>10</sup>

Philanthropy can play only a limited role to address these problems. Despite recent increases in domestic giving, charities are generally unable to achieve sustainable scale. The private sector, on the other hand, is especially adept at identifying needs and crafting economically sustainable solutions. Private companies possess innovative skills, technology, and capital that create powerful complements to the expertise and resources of government, philanthropies, and civil society.

### Is CSR the answer?

Traditionally, corporate social responsibility (CSR) has been Indian firms’ primary mechanism for contributing to social development. The notion that business and society are interdependent is certainly not new in India; indeed, references to the private sector’s important contributions to the greater good appear in the Bhagavad Gita<sup>11</sup> and Vedic philosophy.<sup>12</sup> From the Tata Group more than a century ago to the Bharti and Wipro examples more recently, Indian corporations have embraced their obligations to society and given generously to their communities. Local corporate philanthropy has traditionally been driven by companies investing in the welfare of their employees and in the communities where they conduct business. Some corporations focus on minimizing harm to the environment or employees by following health, safety, and environment (HSE) guidelines. While such efforts are essential, they are limited to the company’s own footprint and do not drive large-scale social progress. Most importantly, they do not leverage the business’s most significant assets—their core competencies—to achieve an external impact.

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<sup>c</sup> All conversions have been calculated at a rate of \$1 USD to Rs. 46.06, based on the rate accessed on August 31, 2011, at <http://www.x-rates.com/d/INR/table.html>. Please also note that we are using the Indian standard numbering system, which groups by two decimal places. For example, 30 million (3 crore) rupees is written as Rs. 3,00,00,000, with commas at the thousand, lakh, and crore levels. One lakh is equivalent to one hundred thousand, and one crore is equivalent to ten million.

Domestic CSR rarely focuses on large-scale effects and has not created systemic solutions to India's most pressing social issues. The Ministry of Corporate Affairs recently issued an updated version of the National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business.

*“Corporates are often viewed through a very narrow lens that concentrates only on their ability to extend financial support to socially relevant projects. This approach ignores the immense transformational capacity of business in innovating business models that can synergistically deliver economic and social value simultaneously.”*

*—ITC Chairman Y C Deveshwar*

These guidelines, as well as an ongoing debate over a proposal to mandate that corporations designate 2 percent of their profits to social responsibility activities, have increased focus on improving the quantity and quality of Indian CSR. From the highest levels of government to managers at the front lines of industry, **today's discussion is no longer about *whether* corporations have a role to play in India's development, but about *how* best to do so.**

### Shared value: A more effective approach to inclusive growth.

FSG co-founders Michael Porter, professor at the Harvard Business School, and Mark Kramer, senior fellow at the Harvard Kennedy School, first introduced the concept of “creating shared value” (CSV) in “Strategy and Society,” their 2006 *Harvard Business Review* article. The authors more recently expanded on this idea in a January 2011 follow-up piece entitled “Creating Shared Value.”

Creating shared value means closely examining the linkages between economic and social progress. When businesses invest to spur better health, improve education, and generate higher productivity, they

*“What's happening now is really a redefinition of the boundaries of capitalism. Creating shared value is the next stage of evolution in the sophistication of the capitalist model.”*

*—Professor Michael E. Porter,  
Harvard Business School*

expand their customer base and increase the purchasing power for their goods and services. Similarly, the discovery of new business models that address unmet needs can relax constraints on future growth. New processes that conserve energy and natural resources can increase profit margins. CSV compels firms to view social progress as a key factor in the development of their business strategy.

In their most recent article, Porter and Kramer suggested that companies can create shared value opportunities by pursuing three levers:

- *Reconceiving products and markets*  
Companies can meet social needs by better serving existing markets, accessing new ones, or developing innovative products that meet social needs.
- *Redefining productivity in the value chain*  
Companies can improve the quality, quantity, cost, and reliability of inputs, production processes, and distribution systems, while simultaneously acting as a steward for essential natural resources and driving economic and social development.
- *Enabling local cluster development*  
Companies do not operate in isolation from their surroundings. To compete and thrive, they need a strong competitive context that includes reliable local suppliers, functioning infrastructure of roads and telecommunications, access to talent, and an effective and predictable legal system.

CSV starts from a different worldview than traditional CSR. It argues that responding to social concerns does not require a trade-off against corporate profitability. Rather, companies can advance their economic interests precisely by creating new value through thoughtful, strategic initiatives that simultaneously contribute to society as a whole. According to this vision, companies recognize that issues like pollution and poor working conditions are not externalities to be dismissed, but core business concerns of operational efficiency and productivity that offer opportunities to increase profits and develop competitive advantage. CSV initiatives that address social problems may also create opportunities for Indian enterprises to go global, since solutions developed for local issues may be highly valued in other markets. For example, manufacturers of medical devices have found that innovations to increase portability in developing countries result in greater demand for their products in developed markets because they permit providers to bring care more directly to patients.

Table 1. Comparison of Traditional CSR and Creating Shared Value

	Traditional CSR	Creating Shared Value
Motivation	Corporate reputation and license to operate	Competitive advantage
Driver	External stakeholders	Corporate strategy
Measurement	Spending, standard ESG <sup>d</sup> metrics	Social and economic value created
Management	CSR departments	Across the whole company
Social Benefit	Successful projects	Large-scale sustainable change
Business Benefit	Risk reduction and goodwill	New business opportunities

Source: FSG Analysis

*The effect this change of mindset can have on companies is profound.* Rather than making small efforts to comply with local laws, companies that seek to create shared value aggressively pursue fundamentally better operational practices. Rather than seeking merely to improve their reputation, they innovate and work with others to actually discover solutions to social problems. Especially in India, corporations that follow the CSV vision often aim to reconceive products and markets to meet the needs of low-income and rural populations. This is perhaps not surprising, as the nation is home to millions of people who lack access to basic products and services through conventional channels. As ITC Chairman Deveshwar notes: “It is clear that we cannot address the challenges of tomorrow with the policies and strategies of yesterday. The global challenges of food, energy and water security, climate change, and sustainable livelihood creation will need far more impactful and innovative solutions. It is no longer a debate about making lifestyle choices; it is about finding life-changing solutions required for the world’s poor and most vulnerable.”<sup>13</sup>

Consider a company that makes hygiene products. Following a traditional CSR worldview, the company would seek to treat its employees fairly and to manufacture its products from recyclable material. To pursue inclusive growth, it might hire differently-abled individuals or support medical camps. However, as the example of Hindustan Unilever’s (HUL) Lifebuoy soap shows, companies that explicitly seek to create shared value go much further. HUL recognized that, by reconceiving the market for its hygiene products,

<sup>d</sup> Environmental, social, and governance.

it could reduce the national incidence of diarrhea, which kills more than 5,00,000 children every year. In 2002, the company launched the Lifebuoy Swasthya Chetna program, a massive campaign to promote improved hygiene and reduce diarrhea-related deaths.<sup>14</sup> The program has reached 135 million Indians to date and saved many lives.<sup>15</sup> Moreover, the campaign has had a tremendous economic effect, helping Lifebuoy secure an 18.4 percent share of the soap market and making it one of India's most trusted brands.<sup>16</sup>

It is important to note that successfully creating shared value is not a simple process of bringing more products and services to underserved populations. For example, services such as microfinance or products such as ultrasound machines can have negative effects on society: microfinance borrowers can become painfully overextended, or ultrasound devices can be used to single out female fetuses for abortion. Government and civil society, as well as companies, all play important roles in monitoring consumer offerings and balancing economic and social interests.

In this paper, we focus on companies that take a systematic and intentional approach to creating economic and social value. In the chapters that follow, we examine how companies in three sectors (healthcare, agriculture, and financial services) have achieved this balance and contributed to real, sustained, and inclusive growth. In each case, companies use private-sector resources to create economic value and engender sustainable social change on a large scale. The implementation of CSV principles in India is in a nascent stage. Yet the experiences of several firms, including social and small to medium enterprises, show that market-based models can have significant economic and social impact. We hope that these examples will spur innovation across the Indian business community, particularly at large organizations that can use their significant scale to contribute greatly to inclusive growth. We also hope that these case studies will inspire governments and civil society to consider additional ways to catalyze innovations for India's future.

“Our entire approach is to find strategies that will do well for our business while doing good. We do not think of these separately. ... Only when you marry these two in this manner do you have scale. Otherwise, philanthropy or charity are nice to do, but that is not our purpose and the impact that you would create would be insignificant.”

—Nitin Paranjpe, Hindustan Unilever CEO and Managing Director<sup>17</sup>

## 2. CSV at Work in India: Healthcare and Sanitation

Although India's health and sanitation sectors are growing quickly, vast segments of the population have not benefited or experienced better health. Companies are beginning to view these social challenges as business opportunities and are creating shared value in several ways. These strategies include improving access to medicine in rural areas, developing innovative medical devices tailored to the needs of low-income populations, and improving sanitary conditions and access to clean drinking water.



“The issues of inaccessibility, inadequate infrastructure and [the] need for far more human resources for health in the rural areas, however, remain huge challenges. It is in this area that the private sector can play a crucial role in augmenting and supplementing the efforts of the Government.”

—India Health Minister Shri Ghulam Nabo Azad<sup>18</sup>

India’s accelerated economic growth has led to better health for its citizens. Since 1970, average life expectancy, a key health indicator, has increased by 14 years to age 63.<sup>19</sup> Average fertility and infant mortality have decreased by approximately 50 percent since 1950.<sup>20</sup> In addition, India has eradicated smallpox and the guinea worm and drastically reduced cases of leprosy, malaria, and polio.<sup>21</sup>

### Despite improvements, Indians still face significant health challenges.

Mirroring the growing gap between India’s rich and poor, large inequities in health and access to quality healthcare continue to persist. India’s poorest 20 percent suffer mortality and malnutrition at more than twice the rate of the wealthiest 20 percent, and gender, caste, education, and geography are strong determinants of health outcomes.<sup>22,23</sup> In addition, an overextended and outdated health infrastructure system compounds the problem. India has only 0.7 hospital beds per 1000 patients, far lower than the world average of 2.6.<sup>24</sup> The country also has about 30 percent of the doctors per capita that China does, and roughly one-hundredth the doctors per capita of the United States.<sup>25</sup> The situation is significantly worse in rural areas, where the doctor-to-population ratio is six times lower than in urban areas.<sup>26</sup>

India has made progress in the last decade. However, access to sanitation facilities and clean drinking water, a prerequisite to overcoming water-borne diseases such as diarrhea and typhoid, remains uncommon in much of the country. According to a 2009 report by the country’s Central Statistical Organization on progress toward the United Nations’ Millennium Development Goals, “India, one of the most densely populated countries in the world, has the lowest sanitation coverage.”<sup>27</sup> The resulting illnesses are costly to families and the economy as a whole, leading to productivity losses and higher medical expenses.<sup>28</sup>

### The Government of India alone cannot solve health and sanitation issues.

The Gol set a goal of universal health coverage shortly after independence and reiterated this aim in its first official National Health Policy in 1983. Nonetheless, fewer than 10 percent of Indians have health insurance, and India ranks 171<sup>st</sup> in the world for public healthcare spending as a percentage of GDP (roughly 1 percent).<sup>29,30</sup> The government has a clear role to play in addressing structural and institutional gaps in care. However, the Gol has explicitly recognized the need for private-sector involvement to supplement its own investments in health. To that end, the Gol is encouraging private-sector participation through reductions on import duties on medical equipment, subsidies for health insurance, and numerous tax incentives.<sup>31</sup>

## The private sector increasingly offers effective—and profitable—solutions.

Innovative companies are already demonstrating that the health sector provides significant opportunities to create shared value across all three levers described on page 10. This section highlights three distinct approaches taken by companies that are tackling public health issues in innovative ways:

1. Increasing access to medicine and treatment (to increase availability, affordability, and adoption)
2. Developing medical devices for hard-to-reach populations (to enable health providers to expand the reach and quality of their services)
3. Providing access to clean water and improving sanitary conditions (to reduce the health burden of infectious diseases).

### Increasing access to medicine and treatment

One of India's primary health challenges is expanding access to medicine and treatments that are already on the market. The World Health Organization estimates that 65 percent of Indians lack regular access to essential medicine.<sup>32</sup> High logistics costs deter many companies from selling their products and services in remote communities. Even if such products are available, impoverished residents of those communities often find them unaffordable. According to Oxfam, 40 percent of people hospitalized in India are forced to borrow money or sell assets to meet costs, and 23 percent of ill patients simply never seek treatment because they cannot pay.<sup>33</sup> In addition, cultural barriers and lack of education often lead to low adoption rates of medicine and treatment.

While 67 percent of Indians live in rural areas, rural markets make up just 17 percent of pharmaceutical industry sales.<sup>34</sup> Innovative pharmaceutical companies such as Novartis have begun to recognize the business potential of increasing sales in rural areas and are reconceiving their products and markets to reach more low-income patients.

In 2007, Novartis India launched Arogya Parivar (Hindi for “Healthy Family”), a program designed to increase access to medicine in rural India. The company uses its generics manufacturer, Sandoz, to produce drugs at low cost and provides smaller package sizes to make products more affordable. In a parallel effort, Arogya Parivar “health educators” work closely with village leaders and local non-governmental organizations to educate residents of rural communities about the benefits of healthy lifestyles, raising awareness and simultaneously creating demand for effective medicine.<sup>35</sup> To ensure continuity of supply to local pharmacies, Novartis has established new distribution networks that are capable of supplying even the most remote locations. In addition to reconceiving its products and markets, Novartis is also strengthening its competitive context by working with international and local financial institutions to make infrastructure loans available to rural healthcare practitioners. Such loans allow local health practitioners to set up facilities, increasing the number of patients who can seek quality healthcare services and thus the market for medicine.

Novartis recognized early on that the low-income market in India was a high-volume and low-margin business. The company has therefore expanded the Arogya Parivar product portfolio and now offers 79

products in 12 therapeutic areas. In 2010, its third year of operations, Arogya Parivar broke even. From 2007 to 2011, the program doubled in size, improving access to health education and medicine for 42 million patients in 28,000 villages. It created partnerships with 50,000 pharmacists and clinics, and its

*“By adding more products, Novartis can improve health outcomes of more people and can also improve the profitability of the business model.”*

*—Dorje Mundle, Novartis Global  
Head of Corporate Citizenship*

health education programs reach four million people every year.<sup>36</sup> Indeed, Arogya Parivar’s social benefits are manifold. According to Incanus Public Affairs (a global public relations and communications firm), “[Arogya Parivar] empowers villagers, provides employment, and improves rural healthcare. Ultimately, it will dramatically enhance the well-being of families, as main income earners benefit from chronic disease prevention and treatment.”<sup>37</sup>

Non-pharmaceutical actors in the healthcare sector also see the potential for business growth by serving low-income households. Several hospital chains and other treatment facilities are implementing innovative business models to extend their reach to rural areas.

LifeSpring Hospitals, for example, is an expanding chain of affordable, high-quality maternity hospitals that offer doctor-assisted childbirth and early pediatric care to low-income women in southern India.<sup>38</sup> Its narrow specialization in maternal health has enabled LifeSpring to focus on lowering costs and increasing productivity.<sup>39</sup> By offering delivery services at 30 to 50 percent of the typical costs, LifeSpring helps reduce maternal and child mortality (thus working toward Millennium Development Goals). Moreover, it offers affordable, dignified, and safe healthcare, saving low-income households the burden of putting a significant portion of their income toward healthcare or else taking on debt, as they have traditionally had to do.<sup>40</sup> As of mid-2010, LifeSpring Hospitals had delivered more than 7,000 babies and its doctors had treated over one lakh outpatient cases.<sup>41</sup> In just five years, LifeSpring expanded to nine hospitals, each of which was designed to break even within 20 months of opening.<sup>42</sup>

Another example is Healthpoint Services India (HSI), which operates “E Health Point” satellite facilities. The facilities are staffed with local health workers and clinical assistants, and they provide families in rural villages with medicine and comprehensive diagnostics at low cost. E Health Points are also equipped with advanced telemedical services that permit phone-based consultations with high-quality licensed physicians in the organization’s urban telemedical centers for just Rs. 27 (\$.59).<sup>43</sup> In addition to these healthcare services, E Health Points also provide safe drinking water for a monthly subscription cost of about Rs. 2.25 (\$.05) per household per day. Since they began in 2009, E Health Points have enabled over 25,000 telemedicine consultations and 12,000 diagnostic investigations. In addition, they provide safe drinking water to roughly 2,50,000 users daily.<sup>44</sup>

# Vaatsalya

## Vaatsalya

In 2005, Ashwin Naik and Veerendra Hiremath founded Vaatsalya, a no-frills hospital network in rural and semi-urban India. Vaatsalya caters to the basic specializations of gynecology, pediatrics, general surgery, and general medicine, addressing about 70 percent of local community needs.<sup>45</sup>

Vaatsalya's no-frills model allows it to keep prices roughly 80 percent lower than urban hospitals' prices.<sup>46</sup> It keeps its costs down compared to city hospitals by drastically reducing capital expenditures. For example, rather than buying prime real estate and building new facilities from the ground up, Vaatsalya leases existing buildings to take advantage of low rents. The company minimizes infrastructure investments by purchasing only X-ray machines, ultrasound devices, and ventilators, and centralizes procurement to maximize savings through increased bargaining power. Low costs and the ability to treat 50,000 patients per year ensure that new Vaatsalya hospitals can break even in six to 12 months.<sup>47</sup>

Vaatsalya's strong growth testifies to the success of its business model. Starting with a Rs. 92.12 lakhs (\$200,000) seed investment just six years ago, the company has expanded to a network of eleven hospitals treating over 300,000 patients per year.<sup>48</sup> The company reached an annual turnover of roughly Rs. 36.6 crore (\$8 million) and profit margins of 20 percent in 2010.<sup>49,50</sup> Its eleven hospitals hold more than 750 beds, making it the largest hospital network of its kind in India. Investor confidence in the Vaatsalya business model is growing steadily; the firm received Rs. 46.06 crore (\$10 million) of its total Rs. 80.6 crore (\$17.5 million) in private equity capital during its third round of funding this year.<sup>51</sup>

Since its creation, Vaatsalya has helped hundreds of thousands of patients from semi-urban and rural areas who did not previously have access to healthcare services. Vaatsalya has not only brought healthcare to rural communities and saved the local population long and costly trips to cities, but it also offers the most-needed services at significantly lower prices than urban hospitals do. As one woman put it: "My father could have been in serious trouble if he hadn't gotten the help he needed right then. The [Vaatsalya] hospital was very near, so he got the necessary help quickly. Thanks to that he's well now."<sup>52</sup>

Despite such success, Vaatsalya's leaders believe much work remains to achieve their goal of providing healthcare to semi-urban and rural areas. Management plans to expand the network to a total of 50 hospitals, covering Karnataka, Andhra Pradesh, and Maharashtra. The company expects this network to serve roughly one million middle- and low-income customers per year.<sup>53</sup> According to co-founder Ashwin Naik: "It's close to a Rs. 23,000 crore (\$5 billion) opportunity in the semi-urban and rural areas. However, the organized players are yet to go down into these small towns. And I think it's a matter of time. In the next three to five years we will see a lot more activity." Regarding Vaatsalya's potential, Ashwin states that "from our analysis, there is an opportunity for about 500 Vaatsalya hospitals India-wide."<sup>54</sup>

**"In many instances we are the first organized health care provider in these communities. The services that we bring do not compete with the local community, because they are either complementing what is already available or nonexistent to date.... [In the] absence of our facilities people would have to travel 50–60 km to access the same type of service." —Ashwin Naik<sup>55</sup>**

### Developing medical devices for hard-to-reach populations

Medical devices—from laboratory testing to imaging diagnostics like ultrasounds—have traditionally been centralized, expensive, and difficult to use. Like many developing countries, however, India needs medical devices that are portable, affordable, and easy to operate in order to reach more patients. Companies that can effectively and innovatively develop medical devices can increase access and reduce the load on healthcare delivery services through early diagnosis, better clinical outcomes, less invasive procedures and shorter recovery times.<sup>56</sup> Although the sector is still nascent in India, some companies have recognized the market opportunity in medical device innovation and are steering their R&D investments accordingly.

In 2009, General Electric (GE) launched Healthymagination, a commitment to invest Rs. 27,636 crore (\$6 billion) by 2015 to develop 100 new, more affordable, and simpler products that address severe health issues.<sup>57</sup> Already it has launched the MAC 400, a portable electrocardiogram (ECG) machine developed specifically for the Indian market. At one-third the price of imported ECG systems, the MAC 400 is battery operated (to deal with India's frequent power outages) and lightweight (so field-based doctors can carry them to patient visits).<sup>58</sup> Moreover, GE has already introduced the next generation MAC i, a variant of the MAC 400 at half its price. Given that Indians account for 60 percent of global heart disease, the increased ECG testing allowed by portable and low-cost devices like the MAC 400 and the MAC i will significantly increase the number of people tested, which is the first step toward early detection and treatment.<sup>59</sup>

Additionally, GE has partnered with Embrace, a social enterprise, to launch a low-cost infant warmer that saves the lives of rural Indian newborns. While traditional incubators cost up to Rs. 9.2 lakhs (\$20,000), the Embrace Infant Warmer costs less than 1 percent of that price and does not require a constant supply of electricity. According to Mike Barber, Vice President of GE Healthymagination: “The partnership with Embrace is an opportunity to further our commitment to maternal-infant care while increasing local access and reducing infant mortality. Along with our partners, we’re addressing the specific needs of the local healthcare environment and helping to solve critical problems.”<sup>60</sup>

As of 2010, GE had six products in development and planned to launch 30 more in the following three

*“We realized that the biggest impediment was that we were selling what we were making [rather than] making what the customers here needed.”*

*—V. Raja, President and CEO of GE Healthcare—South Asia*

years.<sup>61</sup> The social benefits of decentralizing technology are evident: increased access to medical devices at lower cost allows doctors to diagnose and treat more people, ultimately saving more lives. GE clearly sees significant potential in Indian healthcare; as GE Healthcare CEO John Dineen has noted, “what’s important is that we will do whatever it takes to succeed in this market.”<sup>62</sup>

Similarly, Bigtec Labs, a Bangalore-based medical technology company, has developed a miniaturized, no-frills, and portable version of the usually bulky polymerase chain reaction (PCR) machine, which can detect infectious diseases such as swine flu in less than thirty minutes. Priced at Rs. 1 lakh (\$2170), it costs approximately 15 times less than conventional PCRs.<sup>63</sup> According to Chandrasekhar B Nair, Director at Bigtec Labs, the micro-PCR brings the cost of a PCR test down from around Rs. 11,500

(\$250) to Rs. 92 (\$2).<sup>64</sup> Both the decrease in size and reduction in cost will likely make the product more widely available among low-income patients.

### Providing access to clean water and improving sanitary conditions

Communicable diseases constitute a significant portion of the overall disease burden in India, and a large proportion of this burden is related to water, soil, and food-borne diseases such as diarrhea, typhoid, worm infestation, and others.<sup>65</sup> Diarrhea accounts for almost one-fifth of all deaths among Indian children below the age of 5, and rampant worm infestation and repeated diarrhea episodes result in widespread childhood malnutrition.<sup>66</sup> Given that 75 percent of India's surface water resources are polluted, it is sadly no surprise that the majority of Indian households are exposed to water-borne diseases.<sup>67</sup>

However, such statistics reflect a major opportunity for the private sector to develop solutions. According to an International Finance Corporation estimate, the municipal water-treatment market was worth over Rs. 1,382 crore (\$300 million) in 2006.<sup>68</sup> Increasingly, private-sector companies recognize the opportunities presented by addressing water contamination, and many are creating products aimed at low-income consumers.

WaterHealth India's mission is to use its innovative business model to provide scalable, safe, and affordable water solutions to people who lack access to clean water.<sup>69</sup> Although it is a private enterprise, WaterHealth India draws capital investments for the installation of its Water Centers (WCs) from state governments, village panchayats, and private sponsors. To help poor Indians afford its products, WaterHealth India offers an innovative financing program. Sponsors pay for a portion of the installment cost up front, and WaterHealth India covers the rest of the necessary capital expenditures. End users pay fees based on the amount of water they consume; those fees are in turn used to repay WaterHealth India's financing costs, as well as for ongoing maintenance of the WCs.

WaterHealth India installs its WCs in underserved communities, schools, and hospitals, as well as in homes and apartment buildings.<sup>70</sup> A standard system generates 20 liters of clean water for one person per day and serves roughly 3,000 people. For households that are located far away from WCs, trucks deliver 20-liter water containers directly to homes at times that are convenient to residents. To boost adoption rates of clean drinking water, WaterHealth India conducts a month-long awareness program as part of the launch of each new Water Center. The program has been a clear success: according to a survey that WaterHealth India conducted in more than 50 villages, the number of registered water-borne diseases declined by almost 60 percent in the four months following launch of the WCs.

WaterHealth India currently operates 440 WCs and plans to expand to 1,000 in the coming years.

WaterHealth International (WaterHealth India's parent company) offers clean drinking water to about 2 million underserved people worldwide and plans to reach over 100 million by 2015. Beyond its current initiatives in India, the Philippines, and West Africa, WaterHealth International is evaluating opportunities in other parts of the world, including the United States, Latin America, and several Asian countries.

*“At the end of the day, we’re serving all the stakeholders in this particular value chain.”*

*—Madhu Krishnamoorthy*

Besides the installation of large-scale water systems, companies also offer water purifying filters to households. For example, Hindustan Unilever (HUL) sells its “Pureit” water filters in all 28 Indian states and reached a total of 15 million people in 3 million households in 2009.<sup>71</sup> According to a study conducted by the Indian National Institute of Epidemiology in the Chennai slums, tsunami-affected homes using Pureit had a 50 percent lower incidence of diarrhea. Most notably, this dramatic improvement occurred even without any other health, hygiene, or sanitation intervention.<sup>72</sup> Since HUL launched its Pureit business in 2004, the company has replicated its performance in Mexico and Indonesia and expects the line to break even in 2012.<sup>73</sup>

Private companies are also pursuing opportunities beyond water provision, with many recognizing the significant market potential in the sanitation sector. In particular, as discussed in the introduction (see page 11), Hindustan Unilever’s Lifebuoy soap has experienced tremendous success. The Lifebuoy Swasthya Chetna (Hindi for “Health Awakening”) program promotes the spread of hygienic practices among rural populations to reduce the incidence of diarrhea. Lifebuoy teams visit villages several times and explain the danger of germs, as well as the benefits of washing hands with soap, to residents. As HUL Chairman Harish Manwani reflected: “This campaign is the single largest private rural health and hygiene campaign undertaken in India to educate people about basic hygiene habits. Since 2002, the project has reached over 135 million people.”<sup>74</sup>

While the campaign has led to increased hand washing with soap and reduced the number of diarrhea deaths, it has also helped the red Lifebuoy soap bar to become the undisputed market leader in India. Today, Lifebuoy has an 18.4 percent market share and an annual domestic turnover of Rs. 1,331 crore (\$289 million).<sup>75</sup> In addition, Indians repeatedly vote it among the top 10 most trusted brands in an annual survey conducted by Brand Equity.<sup>76</sup>

### The need for solutions continues to grow.

A growing population, combined with inequitable economic growth, a shifting disease burden, and relatively low public health expenditures, create an expanding need for solutions to health problems. The experience of recent decades, however, has shown that traditional solutions do not necessarily lead to better health. Since many low-income households live in remote and inaccessible areas, health services must be customized to the Indian market in order to succeed. Companies must explore innovative solutions to increase access and reduce the cost of health services if India’s health issues are to be reduced.

Several companies have started to view India’s health burden not only as an unacceptable social ill, but also as a business opportunity. Early movers have recognized the business potential of addressing India’s health issues and are eager to establish themselves quickly in a fast-growing market.

### 3. CSV at Work in India: Agriculture

Forty-five percent of India's workforce is in agriculture. Yet despite government efforts, systemic inefficiencies constrain growth, and 85 percent of farm households still earn less than \$1 a day per capita. Several profitable business models have emerged to create shared value by increasing agricultural productivity, creating fair and transparent markets, and collectivizing small and marginal farmers.



“No country has been able to sustain a rapid transition out of poverty without raising productivity in its agricultural sector.”

—C. Peter Timmer<sup>77</sup>

Agriculture plays a pivotal role in the Indian economy and is a critical contributor to economic growth. In addition to providing food security to the country's 1.2 billion people<sup>78</sup>, the sector employs about 45 percent of India's workforce<sup>79</sup>, contributes 14 percent to India's GDP<sup>80</sup>, and provides raw material to a myriad of rapidly growing industries. As the Center for Global Development notes, improved agricultural effectiveness raises labor productivity, pulls up wages, and even stimulates urban development as modernized equipment and practices enable rural workers to participate in urban economies.<sup>81</sup>

**Despite the sector's importance, food security and poverty continue to be major challenges.**

Unfortunately, agricultural productivity in India appears to be moving in the wrong direction. Agriculture GDP grew at a compound annual rate of 2.3 percent<sup>82</sup> from 2000 to 2010<sup>e</sup>, roughly a third of the country's 7.2 percent growth rate over the same period.<sup>83</sup> India's population increased by almost 17 percent over the last decade, while yield per hectare of food grains grew by only 5.7 percent, and area under cultivation decreased by 1.6 percent.<sup>84</sup> Further complicating the situation, government investment in agriculture declined from 20 percent of total expenditures in the 1980s to 3.5 percent in 2010.<sup>85,86</sup> As a result, India today has more people and less food available per person, despite booming national economic growth. Recent figures published by the United Nation's Food and Agriculture Organization support this conclusion and state that the percentage of India's population suffering from undernourishment increased from 17 percent in 1995–1997 to 21 percent in 2005–2007.<sup>87</sup>

Farmers continue to lack access to information and basic technology such as irrigation and energy. Additionally, many poor farmers are encumbered by loans with high interest rates. As a result, farmers use their incomes primarily to service debt rather than make agricultural improvements.<sup>88</sup> Making matters worse, the rate of response to added fertilizers is declining, exacerbating the existing problem of low yields.<sup>89</sup> Furthermore, farm input subsidies and preferential credit schemes often fall short of their goals to benefit poor farmers due to leakages in the delivery of public services and low accountability within government institutions. All of these factors contribute to high rates of poverty; nearly 85 percent of Indian farm households earn less than a dollar a day per capita.<sup>90</sup>

Recognizing the importance of agricultural success to spurring inclusive growth, the government recently refocused attention on the sector. Presenting the budget for fiscal year 2010–2011, Finance Minister Pranab Mukherjee announced that the Gol was implementing “a four-pronged strategy covering

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<sup>e</sup> All references to year in this section represent fiscal year.

agricultural production, reduction in wastage of produce, credit support to farmers, and thrust to the food processing sector.”<sup>91</sup> Additionally, the government is changing state marketing laws to permit the development of private marketing channels and is reducing taxes for processed agricultural products.<sup>92</sup> Yet this increased attention from the government may not be enough. The sector faces tremendous challenges in ensuring food security for 17.5 percent of the world’s population with just 2.3 percent of the world’s total land area.<sup>93</sup>

### India’s private sector is beginning to improve agricultural effectiveness to address these challenges.

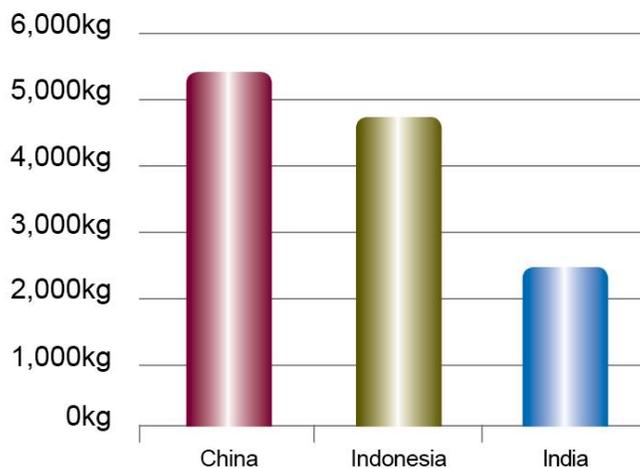
Companies are finding new and exciting ways to create shared value in this sector by pursuing all three shared value levers. Such initiatives are increasing farmer incomes while simultaneously delivering profit and competitive advantage to the promoters. In the next several pages, we will explore three approaches that companies are taking to address India’s agricultural needs:

1. Increasing agricultural productivity (to achieve food security, increase household incomes, and meet growing industrial demand)
2. Creating fair and transparent markets (to empower farmers economically)
3. Collectivizing small and marginalized farmers (to achieve scale).

#### Increasing agricultural productivity

Agricultural productivity in India is abysmally low compared to other developing nations. India suffers from fragmented and small land holdings, inadequate irrigation infrastructure, insufficient investments in agri-inputs (such as seeds and fertilizers), and a lack of farm extension services.<sup>94</sup> As shown in Figure 1, the country’s cereal yield per hectare is significantly lower than other nations.<sup>95</sup>

Figure 1. Cereal Yield per Hectare



Source: World Bank

A mere 43 percent of India's net sown area is irrigated.<sup>96</sup> Furthermore, despite a range of reform initiatives in agricultural extensions over the past decade, farmers' access to high-quality and relevant information (such as market demand, price, best farming practices, and expert advice on quality improvements) has historically been limited. It is crucial that India find ways to improve productivity, a critical component for enabling farmers to increase income. By more effectively accessing markets and banding together in collectives, farmers may be able to negotiate better prices or achieve greater scale. However, if productivity remains low, farmers may be unable to achieve significant growth. Fortunately, private organizations are beginning to create systemic change while capitalizing on such opportunity.

Jain Irrigation Systems Ltd. (JISL), the largest manufacturer of efficient irrigation systems worldwide and a leading processor of fruits and vegetables, addresses water-use efficiency by improving irrigation management and practices for thousands of small land-holding farms in India.<sup>97</sup> One of JISL's core business objectives is to raise the standard of living for poor and marginalized farmers in India. In 1989, JISL recognized small land-holding farmers' need for efficient irrigation systems. The company developed micro-irrigation systems that reduced water usage significantly, using only 30 percent as much water as flood irrigation systems.<sup>98</sup> The International Finance Corporation, in a press release honoring JISL's contributions, praised the company for promoting the use of drip irrigation, which has "led to efficiency gains that have raised annual incomes for small farmers by up to \$1,000 [Rs. 46,000]."<sup>99</sup> By creating a new product for an underserved market (small farmers with less than 1 hectare of land), the company has grown at a compounded annual growth rate of 41 percent over the last five years; its turnover exceeded Rs. 3,500 crore (\$760 million) in 2010. Its micro-irrigation division alone earned revenues of Rs. 1,916 crore (\$416 million) in 2010 and experienced a compounded annual growth rate of 72 percent.<sup>100</sup>

## IKSL

IFFCO Kisan Sanchar Limited (IKSL)<sup>101</sup>

In 2005, Ranjan Sharma hoped to address a serious problem faced by Indian farmers—lack of access to accurate and timely agriculture advice—that he believed was critical to increasing productivity. To overcome this information gap, Sharma developed IFFCO Kisan Sanchar Limited (IKSL). IKSL sells farmers a “Green” SIM card and provides them five free daily voice messages that give guidance on agriculture and related issues, including animal husbandry, agro-marketing, dairy farming, poultry, and weather conditions. IKSL also offers a dedicated helpline to answer queries in farmers’ own languages.

Sharma enlisted two important partners in the creation of IKSL: the Indian Farmers Fertilizer Cooperative (IFFCO) and telecommunications company Bharti Airtel. IFFCO manages more than 40,000 cooperative societies and a base of 60 million farmers. IFFCO’s network of farmers and high credibility with government institutions helps reduce the costs of distribution and content creation. IKSL also relies on IFFCO’s large network of farmers to sell the co-branded IFFCO/Bharti Green SIM card. The company shares the information that IFFCO provides through Bharti Airtel’s extensive existing mobile network, capitalizing on India’s largest mobile communications company by market share.

IKSL’s Green SIMs provide relevant and useful advice to farmers in various agro-climatic zones and have achieved great popularity; in many villages, 100 percent of farmers have adopted the program. Farmers pay a nominal one-time fee of up to Rs. 10 (\$.22) to become a mobile customer. They then buy pre-paid top-ups to make calls and send text messages. IKSL’s revenue comes from commissions, paid by Bharti Airtel, on all new Green SIM subscriptions and top-ups made on the SIM. This revenue model allowed IKSL to break even within its first year of operations. In 2010, the venture earned revenues of Rs. 170 crore (\$36.9 million, an increase of 110 percent over 2010) and a profit of Rs. 20 crore (\$4.3 million).

IKSL has proven to be a win-win venture for all stakeholders. The company documents several success stories every month that suggest crop yield increases between 20 and 60 percent. Most of those increases are the result of tips IKSL provides to farmers on agriculture techniques, disease prevention, and animal husbandry. Moreover, IKSL accounts for nearly half a million of the 3 million new subscribers that Bharti Airtel adds each month, and IFFCO communicates directly with its primary customers (farmers) five times each day, creating an effective marketing channel that the company values highly.

Currently, IKSL maintains a presence in all Indian telecom circles except North East and Jammu & Kashmir. Thus far, the company has identified 61 distinct agro-climatic zones based on soil quality, crops grown, and prevailing weather conditions. Looking ahead, IKSL plans to provide more tailored information, such as daily messages related to agriculture and breeding practices for animals and crops selected by the recipient farmer. Over the next three years, IKSL will make its services available to 25 million farmers through 450 agro-climatic zones that provide customized information.<sup>102</sup>

“There is enough space for many players in this industry, but specialization is important. Companies should not presume that the poor will accept any information even if it is free, and need to know that information, unless tailored to suit their specific needs, may not be received well.” —Ranjan Sharma

### Creating fair and transparent markets

Rural farmers often lack access to markets and pricing information, and these deficiencies affect them throughout the production and post-production phases. Unaware of current market prices, farmers are unable to make educated choices about which crops will offer higher financial returns, and as a result may plant less lucrative crops. Furthermore, small landholdings mean that farmers do not need substantial inputs and cannot buy in bulk, thus increasing the price they pay. Lastly, this lack of information creates significant challenges for farmers as they seek to sell their produce at fair market prices, since intermediaries dominate the agricultural supply chain and often take advantage of information gaps. Combined, these challenges limit a farmer's ability to earn a living above subsistence. Fortunately, private companies are developing innovative models that aim to improve efficiencies in the agriculture supply chain by increasing connectivity between farmers and the marketplace.

One such company is eFarm, created in 2009 by former IT and sales and marketing professionals Venkat Subramanian and Srivalli Krishnan.<sup>103</sup> Subramanian and Krishnan recognized that farmers lacked information on consumer demand, such as volumes needed for particular crops, and prices paid by end consumers. Similarly, buyers lacked dynamic information on crop availability, which affected their ability to adjust production accordingly. The solution was eFarm, which uses mobile and SMS technology to share supply and demand data, improving farmers' and buyers' planning abilities. In addition to creating value for farmers by increasing market transparency, eFarm improves productivity in the value chain by introducing simple standardized processes such as weighing machines. eFarm has reduced the waste of fresh food to less than 5 percent by putting products in crates, using information technology to track inventory, and efficiently matching produce of different quality to appropriate buyers. eFarm is also improving the competitive context and strength of the local agricultural cluster through consulting services and training workshops.

Today, eFarm has established a ground distribution center serving Chennai (the main metropolitan area in South India) and has defined a procurement zone covering a 250-kilometer (150-mile) driving radius. The company is working with 5000 farmers to serve a variety of customers, from slum dwellers to leading hotel kitchens and a military commissary. Less than 3 years after launching the business, operations are

breaking even. Subramanian expects to begin generating profit in November of 2011, and is targeting a 10-15% net margin per center.<sup>104</sup> The company also recently received venture capital funding to fuel its growth plans.

*“We believe if you can succeed in serving the bottom of the pyramid, reaching upward to the top is very easy.”*

—Venkat Subramanian

Another example is Gramin Suvidha Kendra (GSK), a public-private partnership started in 2006 by the Multi Commodity Exchange of India Limited (MCX) and supported by several state postal departments.<sup>105</sup> GSK's goal is to provide farmers with a level playing field by giving them access to new opportunities in agricultural marketing, risk management, and finance. Additionally, GSK works with various organizations to meet farmers' pre- and post-harvest needs. Through these partnerships, GSK provides farmers with agricultural inputs, expert advice on farming problems, warehousing, and warehouse receipt financing information.<sup>106</sup> Although the program is still in its early stages, initial indications are promising. According

to an internal survey of the impact of GSK services, 57 percent of farmers said that MCX futures prices helped them decide what crops to sow in the coming season. Of the farmers surveyed, 66 percent claimed that their farm's productivity has gone up because of GSK seeds and fertilizers. Currently, GSK serves numerous farmers through 26 centers and about 400 branches of the Indian postal department.<sup>107</sup>

Spurred by government investments, companies are also using Internet technology to efficiently buy produce directly from farmers, reducing information asymmetry and the role of intermediaries. ITC's e-Choupal initiative is one of the best-known examples of shared value in India today. Described by Columbia University as "India's largest rural information and communication technology initiative," e-Choupals are web-enabled kiosks that provide pricing and weather information, establish market linkages, and create a virtual cooperative of farmers, helping to free farmers from exploitative intermediaries. Information is provided in local languages, and farmers do not have to leave their villages to access the data. Researchers note that the program "alleviates rural isolation and poverty by creating market transparency. This in turn improves rural farmers' productivity and income, and creates a more efficient procurement supply chain for ITC's agri-product business."<sup>108</sup> In 2010, e-Choupals covered 40,000 villages and benefited over 4 million farmers.<sup>109</sup> The Planning Commission reports that ITC's agri-product business reduced its procurement transaction costs from the industry standard of 8 percent to 2 percent. Further, ITC's market share in the soybean processing industry increased in one year from 8 percent to 12 percent.<sup>110</sup> ITC Chairman Y C Deveshwar explains that "at the heart of ITC's innovative strategies lies the creation of unique business models that synergize long-term shareholder value growth with that of enhancing societal capital."<sup>111</sup>

### Collectivizing small and marginalized farmers

India is home to more than 100 million farmers with small landholdings.<sup>112</sup> Because they sell and buy in small volumes, they have a limited ability to negotiate better prices. Therefore, organizations that bring farmers together (that is, collectivize them) have a great impact on farmers' incomes and, at the same time, give buyers access to more consistent and high quality products. Such organizations reduce procurement costs, introduce new technologies and infrastructure, increase education and training, and offer marketing strategies to maximize price. They also help small farmers by providing credit, inputs, and extension services, and they generate higher income for farmers by processing and producing value-added products.

In 1946, two village dairy cooperatives created the Kaira District Cooperative Milk Producers' Union Limited in the hopes of organizing marginalized and subsistence milk producers. Today, the Kaira Cooperative is one of 13 unions in the Gujarat Cooperative Milk Marketing Federation, Ltd., the peak organization of the Gujarat dairy cooperatives and popularly known by its flagship brand, Amul.<sup>113</sup> It is India's largest food product marketing organization, with an annual turnover of Rs. 10,133 crores (\$2.2 billion).<sup>f</sup> Amul has amassed substantial scale, collecting milk from roughly 3 million producer members and producing 9.2 million liters of milk per day.<sup>114</sup> The scale Amul has achieved is due to its strong and

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<sup>f</sup> In fiscal year 2011.

growing network of milk producers, the standardization of processes across village societies and unions, and consistent innovation and improvements in product, processes, and practices at all levels of the value chain.<sup>115</sup> Furthermore, maintaining high quality and low prices has helped Amul remain competitive despite the market entry of multinational companies like Unilever, Nestlé, and Britannia.

Amul has become the poster child for rural development in India and is moving forward with its goal of inclusive growth. In 2010, Amul farmers earned approximately Rs. 8,345 crores (\$1.8 billion), 21 percent more than in 2009.<sup>116</sup> They have reduced production and selling costs for individual producers, and they have reinvested those savings back in their businesses. Amul teaches small and marginalized milk producers about scientific cattle-breeding techniques, provides supplies and credit, and invests in storage infrastructure. Its efforts have increased per capita yields from 112 grams per day in 1968–1969 to 258 grams per day in 2009–2010.<sup>117</sup>

*“We are empowering a large population and are touching almost 3 million people every day. We maximize the return to farmers, and at the same time are providing a high-quality product needed on a daily basis.”*

*—Gujarat Cooperative Milk Marketing Federation (Amul) Representative*

Other companies are likewise working to improve their competitive context. Nestlé’s Moga factory in Punjab is among the company’s largest worldwide; it collects 887 tons of milk from over 110,000 farmers every day.<sup>118</sup> The factory opened in 1961, when it procured a supply of just 551 kilograms of milk per day.<sup>119</sup> Over the years, Nestlé invested in village infrastructure such as storage tanks, chilling centers, artificial insemination centers, and veterinary aid. It also provided training and advice on improving dairy practices through field camps and educational tours. Additionally, Nestlé subsidised the purchase of equipment such as milking machines and helped farmers access financial services.<sup>120</sup> Such efforts increased Nestlé’s supply of milk to 9,50,000 kilograms per day in 2005.<sup>121</sup> Nestlé’s work has significantly increased farmers’ incomes. To take one example, a Nestlé milk supplier named Jintender Singh started with two cows in 1996. Today, with Nestlé’s financial and technical support, he owns 78 cows and sells over 1000 liters of milk daily.<sup>122</sup>

Nestlé support goes further than its work with dairy farmers. The company strengthens the local cluster of suppliers and other institutions to increase farmers’ efficiency, crop yields, product quality, and hygiene. Furthermore, Nestlé supports initiatives in health, sanitation, and schooling for children in Moga. The company builds facilities for safe drinking water and lavatories in village schools, and funds medicines for tuberculosis clinics in Moga and the nearby villages. These developmental efforts attract businesses, investment, and infrastructure, and over time have transformed Moga into a prosperous and high-quality milk district and a thriving hub for industrial activity.<sup>123</sup>

In addition, companies such as Hindustan Unilever and PepsiCo have adopted contract farming models by which farmers and firms create forward agreements for agricultural products, frequently at predetermined prices. These contracts ensure consistent and standardized supplies of quality raw materials from multiple small landholding farmers. Under such arrangements, farmers benefit from lower transaction costs, assured markets, better risk allocation, and inputs and extension services that allow them to strengthen their capacity and competitive position. Through its many shared value initiatives,

Hindustan Unilever shows a commitment to procuring quality farm produce in a way that creates a sustainable supply base. The company sources over 40,000 tons of tomatoes per year from smallholder Indian farmers. According to Harish Manwani, Chairman of Hindustan Unilever: “Hindustan Unilever has trained the farmers on adoption of good agricultural practices, which has resulted in significantly higher yield while using less water, labour, pesticide, and fertilizer. This has led to a lesser burden on the environment, a better return for the farmer, and a sustainable means of producing more to meet rising demand.”<sup>124</sup> To take another example, PepsiCo has engaged over 12,000 farmers to grow potatoes to support the expansion of snack products such as Uncle Chips and Lays.<sup>125</sup>

### Going forward, regulatory changes are likely to spur investment in and demand for quality agricultural products.

As we noted earlier, the GoI places a high priority on reinvigorating growth in the agricultural sector, and it has instituted policy reforms designed to stimulate private investment in agricultural production, marketing, and research.<sup>126</sup> Increased private participation should lead to greater efficiencies; for example, technological improvements in seeds and fertilizers and innovation in irrigation technologies should result in higher yields. As mobile and broadband technologies become ubiquitous, many new business models are likely to emerge that directly connect producers and consumers. Furthermore, the GoI is likely to relax foreign direct investment regulations in multi-brand retailing. As a result, foreign companies are likely to establish new retail outlets, driving up demand for inputs and increasing investments in infrastructure including cold chain, warehousing, and distribution channels. Such developments will lead to strong growth in the farming sector while improving the quality of India’s agricultural output in the long run.<sup>127</sup>

## 4. CSV at Work in India: Financial Services

Although experts universally recognize that financial inclusion is critical to long-term economic and social well-being, a mere 34 percent of Indians have access to formal banking institutions. Financial services companies in India are working to bring formal services to the unbanked by providing discrete products that do not require savings accounts, by delivering basic suites of banking products and services, and even by offering financial advisory support.



“There are few, if any, instances of an economy transitioning from an agrarian system to a post-industrial modern society without broad-based financial inclusion.”

—Reserve Bank of India Governor Duvvuri Subbarao<sup>128</sup>

Experts around the globe agree that lack of access to financial products and services leads to persistent income inequality and constrained growth.<sup>129</sup> In light of this consensus, the Reserve Bank of India (RBI) in 2006 began to push for universal “financial inclusion” across the nation.<sup>130</sup>

Experts further agree that efforts toward financial inclusion must be profitable, or at least self-sustaining. As the RBI noted in 2008: “The important difference in the recent focus on financial inclusion is the adoption of a market-oriented approach that recognizes the importance of business consideration of banks and other financial institutions for the long-term sustainability of the process.”<sup>131</sup>

**Despite widespread agreement that financial inclusion is critical to India’s future, millions of Indians remain unbanked.**

The Indian government’s first effort at financial inclusion was to encourage banks to establish branches in rural areas. A combination of low volumes, poor infrastructure, language barriers, and low literacy levels, however, quickly showed that such efforts were economically unviable.<sup>132</sup> Today, a mere 34 percent of Indians have access to formal banking institutions.<sup>133</sup> In rural areas, the situation is significantly worse: 76 percent of rural Indians have no access to formal products such as savings, credit, and insurance.<sup>134</sup>

The lack of access that Governor Duvvuri Subbarao called “abysmal” in 2010 has contributed to serious social problems that affect many Indians and constrain the nation’s growth.<sup>135</sup> According to the RBI, the costs include barriers to employment (since employers may insist on paying wages into a bank account), lack of opportunities to save and borrow, difficulty owning or obtaining assets, challenges coping with unexpected life events, and exclusion from mainstream society.<sup>136</sup> Unable to tap into credit, grow savings, or purchase insurance, many poor households fall into debt traps. When emergencies arise, they must turn to friends and family for help. When such resources prove insufficient, as they often do, the poor turn to moneylenders that charge annual rates of 200 percent or more.<sup>137</sup> For many poor Indians, the buffer between financial stability and crisis is very slim. For example, an illiterate mobile trader of aluminum pots in Uttar Pradesh named Feizal fractured his leg in a bike accident and lost eight months of earnings. His family lacked insurance and avoided expensive medical treatment due to their irregular and very low income. As a result, his leg did not heal and he was unable to work until a family member found a way to provide funds for hospital treatment.<sup>138</sup>

### For innovators, social problems create opportunities to affect lives.

The good news is that the poor *do* want access to improved services. Indeed, poor people are often willing to pay usurious interest rates because they value loans so highly. For example, a study by Daryl Collins and collaborators identified the popularity of roving deposit collectors for poor savers. According to this system, collectors take small deposits on a daily basis, and the savers receive all their deposits back—minus one day’s worth—at the end of each month. Due to the deduction of one day’s savings, the result is a monthly gain of *negative 3.3 percent*. Those of us with ready access to formalized financial services would find such plans unthinkable. Yet, the researchers identified a mother who saved for her daughter’s education by paying ~Rs. 5 (10 cents) to save Rs. 138 (\$3) over the course of a month, and believed it was “an eminently affordable fee.” They continue: “Where else could she be sure of getting the money out of temptation’s way, and enjoy the discipline of having a collector call on her each day to make sure she saves?”<sup>139</sup> Financial services companies that effectively serve the poor will find tremendous potential to help customers, their bottom lines, and ultimately the nation’s economic well-being.

### As the regulatory environment changes, the private sector is responding.

Innovative approaches for managing barriers to financial inclusion are beginning to emerge, thanks in large part to recent efforts by the government and RBI to ease restrictions on financial services. Although financial services firms have not yet begun to realize substantial scale and profits, early indications suggest that such companies will generate profits, as well as help people in need—the cornerstones of creating shared value. In the next several pages, we will explore the following three approaches that companies are taking to address this sector:

1. Providing discrete financial products (to address specific needs unconnected to savings, such as remittances, insurance, and credit)
2. Providing a basic suite of banking products (to give no-frills access to basic services, including savings accounts)
3. Providing financial advisory services (to recommend tailored and comprehensive products to the poor, including investments).

#### Providing discrete financial products

To protect consumers, Indian law mandates that only approved banking institutions can hold money in the form of savings. Nonetheless, many financial products are not tied to savings deposits, such as remittances, insurance, and loans. Although financial services firms may offer such products without a banking license, many Indians still lack access to even the most basic formal financial products. For example, high migration has increased demand for remittance services, as workers send money back to their villages. The domestic market for remittances was estimated at Rs. 46,000 crore (\$10 billion) in 2007–2008,<sup>140</sup> and poor Indians rely heavily on such services. According to one estimate, domestic remittances pay for over 30 percent of consumption in rural households that receive them.<sup>141</sup>

Nonetheless, approximately 70 percent of domestic remittances occur through informal channels,

because many Indians lack access to formal services and even those who can physically visit a bank must travel long distances and wait in long lines.<sup>142</sup> Informal channels, such as sending remittances through friends and relatives who are returning home, carry major drawbacks. The risk of theft and the need to wait for travelers to make the journey cause many migrants to remit less frequently; this affects household consumption flows among recipients.<sup>143</sup>

Lack of access to basic financial products also creates a significant challenge for the GoI, since government funds intended to support poor and rural populations are often lost due to corruption. The size of the problem is staggering: in 2010, McKinsey & Company estimated that increasing accountability could save the Indian government approximately Rs. 1,00,000 crore annually (nearly \$22 billion).<sup>144</sup>

Fortunately, solutions are emerging. In 2007, the government passed the Payment and Settlement Systems Act, opening up payment services for non-bank service providers. The improved regulatory context has allowed companies to use technology to reduce costs. Moreover, reforms have improved banks' ability to reach their consumers by allowing them to use other institutions' existing distribution networks. Companies such as PayMate, ICICI Lombard, and various microfinance providers have reconceived their products and markets by competing to bring specific non-banking products to large numbers of customers.

In 2009, PayMate launched a financial inclusion initiative to help migrant workers more efficiently and securely remit funds back home.<sup>145</sup> The company devised a way to conduct remittances with mobile phones, a tool that many Indians were increasingly comfortable using. The process is quite straightforward: customers visit a kiosk and provide payment to an agent, who confirms the transaction via mobile phone. The recipient receives notification and then goes to a local kiosk to obtain the cash, at which point the original sender receives confirmation that the transaction is complete. This simple model meets customers' need for secure and convenient remittance options. Although the initiative is in its early days, PayMate believes that it will be profitable and already has tie-ups with more than 30 Indian banks.

*“Sixty percent of people are still unbanked. These are the people who can be included in the [formal] system.... [W]e see there’s a need and also see the potential for how to meet it. We want to marry the two.”*

*—Tanul Mishra, AVP Revenue, PayMate*

The company is negotiating with the GoI to provide payments for the National Rural Employment Guarantee Scheme (NREGS). Investors apparently agree that the model is viable; PayMate has received venture capital funding from parties such as Kleiner Perkins Caufield & Byers, Sherpalo Ventures, and Mayfield Fund.

As in the case of Feizal, noted earlier, many poor people are unable to save enough money to purchase insurance. ICICI Lombard, the nation's largest private sector general insurance company, saw an opportunity to use its assets to solve that problem for small-holder farmers. As Alok Agarwal, ICICI Lombard's Executive Director, explains: “Agriculture is a significant contributor to the Indian economy. ... The rural economy faces economic strain due to the variability in agriculture production, and weather insurance protects farmers against financial loss arising out of adverse weather conditions.”<sup>146</sup> In the 2003–2004 season, ICICI Lombard launched a weather-based crop insurance program. By mid-2010, it

had implemented the model in 14 states, comprising 64 districts and covering 26 crop varieties.<sup>147</sup> The government is now paying ICICI Lombard to expand services to new customers.<sup>148</sup>

Under ICICI Lombard's system, farmers do not file claims. Rather, payments are triggered by deviations from normal conditions as measured by certified weather data collected from independent third parties (such as the Indian Meteorological Department). As of the 2011 fiscal year, ICICI Lombard served 2.2 million farmers across 7.6 million acres of land with weather-based crop insurance.<sup>149</sup> Weather-based products contributed to Rs. 332 crore (\$72 million), 7.8 percent of the company's direct business.<sup>150</sup> The government recently gave the company a mandate to provide such insurance in Madhya Pradesh's Hoshangabad district. As Agarwal notes: "We consider it to be our privilege to have been chosen to provide weather-based crop insurance to farmers in Madhya Pradesh. ICICI Lombard believes in providing a fair and hassle-free service to its customers and the process has been made as objective as possible with third-party government agencies monitoring the process."<sup>151</sup>

In addition to the above examples, microfinance institutions have demonstrated that reconceiving markets by offering targeted credit products to the poor can create shared value. From its inception, microfinance focused primarily on improving customer livelihoods and enabling economic development by offering customers access to basic credit products. Over time, as microfinance became an attractive business proposition and commercial capital began to flow into the sector, competition increased, and the array of products and services expanded. However, caution must be taken when engaging in work with vulnerable communities. In Andhra Pradesh, farmer suicides led some to believe that microfinance institutions overextended loans to borrowers, and the government passed legislation significantly limiting microfinance activity. Although microfinance certainly saw some successes, experiences such as those in Andhra Pradesh show that even well-intended offerings can fail if stakeholders do not collaborate effectively and protect consumers' interests.

#### Providing a basic suite of banking products

Researchers have found that poor people use a broad range of financial products through informal channels. Studies have documented examples where poor households participate actively in financial activities such as savings, credit, insurance, and even investments.<sup>152</sup> Traditionally, firms that attempt to provide poor people with a suite of formal banking services have faced high costs and regulatory constraints. However, reforms such as the 2006 provision for the creation of business correspondents have enabled companies such as Eko India Financial Services, State Bank of India, and HDFC Bank to bring a basic suite of financial services to the poor at scale.

Since its inception in 2007, Eko India Financial Services has believed that it could create both social and business value by facilitating small-scale financial transactions.<sup>153</sup> As a low-cost distribution and payment technology provider, Eko works as a business correspondent<sup>9</sup> with State Bank of India (SBI) and ICICI

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<sup>9</sup> According to RBI guidelines, business correspondents are permitted to carry out transactions on behalf of the bank as agents. "Business Correspondents and Facilitators: Pathway to Financial Inclusion?" College of Agricultural Banking Pune,

Bank (ICICI) to enable branchless banking via cell phones and agents. Eko attracts customers and provides them with a no-frills saving account from which they can make deposits, withdrawals, and remittances. Eko's partner banks charge customers fees for enrollment, annual maintenance, and transactions. The partner banks, Eko, and participating shopkeepers then share those revenues.

Eko's innovations have led to a network of over 1,000 retail outlets across three states. The company has served over 7,50,000 customers, processing 2.5 million transactions that are valued in excess of Rs. 1,151 crore (\$250 million). Although the business is not yet fully profitable, some specific products have managed to break even. Revenues are growing substantially, and the company expects that volume in the coming twelve months will be three to four times the volume of the prior year. Eko is also beginning to realize its social goals. Reviewing Eko's impact, the Consultative Group to Assist the Poor (CGAP) reported, "Customers valued the service: circa three-quarters of respondents (76%) rated the service provided by the branchless banking outlets as highly effective. A similar proportion (74%) said that losing

access to the service would have a negative impact on their life. 98% found the service very or moderately easy to use. When respondents were asked to rank the ease of using Eko's service on a scale from 1 (not easy at all) to 10 (very easy) over three-quarters of customers rated the service as 8 or above."<sup>154</sup> In the near term, Eko plans to expand to Delhi and Bihar; the company is also piloting a life insurance product.

*"It's not pretty to be poor. Financial inclusion helps the country's GDP. ... The more people who participate, the more opportunities there are for others—it creates a virtuous cycle that ultimately creates profit for investors."*

*—Eko India Financial Services*

In 1955, the newly independent government created State Bank of India (SBI) to support its five-year plan and, in particular, the development of rural India.<sup>155</sup> SBI initially provided customers with no-frills accounts with low or zero minimum balance requirements and charges, and slowly introduced savings accounts with overdraft protection. It has also created trial projects in micro-savings, cash deposits and withdrawals, micro-credit, money transfers, remittances, micro-insurance, cashless payments to merchants, self-help group savings accounts, disbursements of government benefits, and utility payments.<sup>156</sup>

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Access Development Services and CGAP. Accessed August 22, 2011, at [http://www.microfinanceindia.org/download\\_reports/bc\\_retreat\\_report.pdf](http://www.microfinanceindia.org/download_reports/bc_retreat_report.pdf).

Today the bank reaches customers through over 35,000 customer service points via business correspondents and business facilitators (BCs and BFs).<sup>h</sup> The bank and its BCs/BFs have mobilized Rs. 2475 crore (\$537 million) in deposits. Although SBI notes that profitability of these services “takes time,” it adds that “after about four years, the rural outlets become sustainable.” Credit linkages have empowered more than 14 lakh self-help groups, including 1.83 crore women members. Migrant workers can send money quickly, securely, and inexpensively.

*“India is growing at 8 to 9 percent, and the young population is entering the workforce. If growth isn’t distributed equitably, we will have social unrest. We need law, order, and social stability for business to be successful.”*

*—State Bank of India Deputy General Manager (Rural Business Unit)*

In another example, HDFC Bank (one of India’s largest private banks) is advancing its goal of financial inclusion through mobile banking by creating a partnership with mobile service provider Vodafone Essar Ltd. The service was initially launched as a pilot program in 10 villages in the Sikar district of Rajasthan. Today, according to news reports, it “allows subscribers to make payments, transfer funds, [and] perform cash deposits and cash withdrawals. As of now, HDFC has appointed 54 business correspondents in these villages, leveraging manpower on Vodafone’s retail network.”<sup>157</sup> Vodafone has experienced significant success serving unbanked customers in Africa, but due to the Indian regulatory environment was previously prevented from offering services here. Due to recent regulatory reforms by the RBI, for-profit companies may now serve as BCs. As a result, Vodafone can access a market with products it has already demonstrated it can profitably offer. The use of strong brand names will potentially encourage faster uptake, ideally helping the partnership break even relatively quickly. HDFC Bank and Vodafone are not the only such partnership: Airtel, a leading mobile provider, has developed a money transfer service with Western Union and SBI, and Reliance Communications has teamed up with ICICI Bank to offer similar services.<sup>158</sup>

#### Providing financial advisory services

“Wealth management” is not necessarily a term one might think of when considering how to serve previously unbanked clients. Nonetheless, as we noted earlier, research has shown that poor people demand a wide variety of services. Although regulatory reforms now allow tie-ups between banks and business correspondents, a typical BC’s lack of deep financial management expertise limits the depth of service that it can provide. To solve this problem, IFMR Rural Finance has developed an innovative model to bring financial advice to individuals who previously had little, if any, financial access at all.

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<sup>h</sup> According to RBI guidelines, while the BCs are permitted to carry out transactions on behalf of the bank as agents, the BFs can refer clients, pursue the clients’ proposal, and help the bank carry out its transactions, but they cannot conduct transactions on behalf of the bank. “Business Correspondents and Facilitators: Pathway to Financial Inclusion?” College of Agricultural Banking Pune, Access Development Services and CGAP. Available at [http://www.microfinanceindia.org/download\\_reports/bc\\_retreat\\_report.pdf](http://www.microfinanceindia.org/download_reports/bc_retreat_report.pdf).

# KGFS

## IFMR's Kshetriya Gramin Financial Services<sup>159</sup>

Kshetriya Gramin Financial Services (KGFS) was created when management at IFMR Rural Finance decided to fundamentally rethink ways to create a high-quality financial services offering that could significantly affect the wealth of poor and largely unbanked households. The team concluded that a suite of wealth management products and services, tailored to the unique situation of a given household, could fill an important need in a financially viable manner, but only if the company could meet sufficient volumes. Recognizing the challenges that brick and mortar banks had experienced in establishing profitable branches in rural areas, the team examined ways that a branch-based model might generate the volumes it would need to be successful.

This line of thinking eventually led to the KGFS model. Each KGFS head office oversees branches designed to serve as many households and enterprises as possible within a tightly defined geographic area that contains a rural population base of approximately 3.5 million people. Branches employ wealth managers who understand individual households' goals, economic conditions, and risk attitudes and can thus provide advice that helps customers make suitable choices about financial service options. Each wealth manager is responsible for answering a single question for each client: ***“How can I, as a financial services provider, steadily increase the wealth of my customer's household over a period of time using financial services and financial advice as my only tools?”***<sup>160</sup>

IFMR launched the first KGFS in 2008, and individual branches have already shown signs of profitability. Today, the company has three KGFS head offices that oversee a total of 110 branches. The leadership team expects the first KGFS (in Pudhuaaru) to achieve overall profitability within a year. Each KGFS is expected to grow to 250 branches within five years, achieving positive profit before tax in the third year.

In addition to rigorously examining the venture's economic viability, IFMR Rural Finance also assesses the social value created. To ensure that staff members focus on their clients' interests, the company aligns incentives for wealth managers with increases in the community's wealth rather than volume-driven targets. The company is developing a village-level metric that uses a baseline to track change. “You could consider this a financial well-being index,” explained one executive. “We're going to track, at a community and an individual level, what is happening to people's financial well-being.”

IFMR Rural Finance believes that India will need approximately 300 fully-scaled KGFSs to adequately serve rural populations. While the company continues to launch KGFSs directly, it also intends to offer a franchising/licensing option to further catalyze growth. It also continues to expand its suite of services and is investigating a partnership with the Gol to sell Rashtriya Swasthya Bima Yojna health insurance policies to poor customers.

**“Our philosophy has been to focus on outcomes for the customer and to take ownership of this. This is in [a company's] own best interest; if you look at an opportunity as a sustainable business, it's possible to replicate and scale faster than something that relies on philanthropy.”**

—Raghav N., IFMR Rural Finance—Strategy

### This customer base, and customers' need for services, will continue to grow.

Population and economic growth are likely to increase household incomes, driving up demand for financial products. Increased urbanization will likewise generate higher demand for remittance services, and the need to improve agricultural effectiveness will increase demand for specialized financial tools such as crop insurance or input-related savings schemes. To meet that need, banks must mobilize resources on a larger scale than ever before.<sup>161</sup> Furthermore, shared value approaches are gaining support within India. Several interviewees noted that automated payment services and access to no-frills bank accounts help reduce pilferage and ensure that poor customers receive payments that are intended for them. McKinsey researchers note that, in a trial in Andhra Pradesh, “the utilisation of NREGS funds increased by 25 percent when payment reliability was improved through e-payment initiatives.”<sup>162</sup> As Governor Subbarao of the RBI noted last year, “in parts of the country where such EBT [Electronic Benefit Transfer] has already taken off, the results are impressive and the experience of both payers and recipients extremely satisfying.”<sup>163</sup>

Beyond the direct social and economic value that these ventures create, companies have an opportunity to create sustained competitive advantages. A study conducted by the GSM Association (a consortium of worldwide mobile phone operators) found that MTN Uganda’s MobileMoney initiative became cash flow positive on a month-to-month basis after only 14 months. What made researchers really excited, however, was their discovery that indirect benefits accounted for nearly half of the initiative’s profitability. Compared to non-users, MTN Uganda’s MobileMoney customers faced lower costs for airtime distribution (because retailers received lower commissions and the need for airtime scratch cards declined), were more likely to remain customers of MTN Uganda, and used more revenue-generating voice and SMS services.<sup>164</sup> Thus companies may find opportunities to reach new customers with socially beneficial products, while increasing revenue per customer and creating long-term loyalty.

## 5. CSV at Work in India: Other Opportunities

Clearly, shared value opportunities exist in many industries. Such opportunities can also span multiple industries, as skills development efforts in India demonstrate.



### Many further opportunities to create shared value exist.

In this paper, we chose to describe examples of companies that are pursuing economic and social benefits within the health, agriculture, and financial services industries. Shared value, however, is certainly not limited to these sectors. For example, large hotel chains are finding ways to reduce their environmental footprint and are using such strategies to generate competitive advantage by reducing costs and attracting guests. The Leela Palaces Hotels and Resorts have set targets for energy, fuel, and water consumption and have made those targets a component of executives' performance management. The group monitors daily power consumption in areas such as laundry, kitchen, and cold storage, and it posts monthly details in staff areas so all employees can see the status and participate in efforts to do better. Participants in management team meetings, energy conservation meetings, and staff briefings discuss suggestions.<sup>165</sup>

In addition, companies can find shared value opportunities by looking across industries. For example, the lack of skilled job candidates is a cross-industry problem that many experts believe is crucial to India's future. Although the country has more postsecondary institutions—and graduates coming out of them—than ever before, Indian businesses are frequently unable to find qualified workers. Such a dearth of skill threatens the nation's ability to continue its 8 to 9 percent annual economic growth and limits the number of people who can rise out of poverty through stable employment. Recognizing the magnitude of the problem, the Gol in 2008 set a target of teaching skills to 500 million people by 2022.<sup>166</sup> Nonetheless, many experts question whether the government alone has the resources to solve the problem, and suggest that India may need a budget provision many times greater than the Rs. 1500 crore (\$326 million) that has been set aside.<sup>167,168</sup>

Companies such as Larsen & Toubro (L&T, a \$10 billion diversified conglomerate) and Future Group (India's largest organized retailer) are beginning to suggest promising solutions. Construction is India's second-largest industry and faces a potential labor shortage of 170–180 million people by 2022.<sup>169</sup> In response to the situation, L&T has become, according to the *Economic Times*, “a rare construction company in India with a training institute that feeds into its businesses.”<sup>170</sup> The company trains thousands of workers across several states and plans to launch further vocational training for positions such as millwright fitters, transmission line tower erection fitters, tiling masons, and surveyors.<sup>171</sup> Similarly, Future Group executive Muralidhar Rao explains that “for our requirements, we will have to tap the vast majority

*“What we are doing is not just for now. It will help us create a steady supply of employable people for our expanding store operations.”*

*—COO, Employability and Skill Development, Future Group*

of people in rural areas who do not have access to education and training ... the future lies there.”<sup>172</sup> The company recently formed a public-private partnership with the rural development ministry to train—and place—32,000 poor youth from rural areas in 19 states over 18 months.

In both cases, these organizations are making use of their core business assets to create social change. Such assets include knowledge of the particular skills needed, the ability to place candidates in jobs that the companies themselves need to fill, and human resource strategies focused on retention. **In these and other examples highlighted throughout the paper, companies have benefited from collaborations**

**with government and civil society, taking advantage of the skills and resources they bring toward pursuit of shared value opportunities.**

Unfortunately, the examples we have shared, while promising, are not yet enough to solve the challenges India faces as the nation looks to the future. The training efforts by L&T and Future Group have helped thousands of workers. While certainly a step in the right direction, existing programs cannot reach the millions who still need training if India is to secure continued growth. Current efforts in healthcare and sanitation, agriculture, and financial services hold great promise for the future, yet practitioners in each industry insist correctly that much more remains to be accomplished.

## 6. Conclusion

Now is the time for a new approach to inclusive growth. Creating shared value is a more powerful approach than traditional CSR, and India has an opportunity to lead the global dialogue about a more balanced form of capitalism. To succeed, businesses must invest accordingly, and the Government of India should create the right environment to enable change. All stakeholders should work together to support India's most vulnerable citizens and push for meaningful, inclusive growth.



### Now is the time for a new approach to inclusive growth.

Of the 12 countries with the most high-net-worth individuals<sup>i</sup> in the world, India is creating millionaires the fastest, at a year-on-year growth rate of 20.8 percent.<sup>173</sup> Yet India's phenomenal private-sector growth has not improved standards of living for the majority of the nation's citizens, many of whom continue to fight ill health, suffer from malnutrition, and battle poverty. It is tough to pick up a newspaper in India without spotting an article that explains the need for inclusive growth. Clearly, it is time for a new approach—one that focuses business resources more squarely on balancing economic and social interests to create meaningful impact, strengthening the country's long-term economic outlook.

### Creating shared value is more powerful than sharing value created.

Traditional CSR involves redistributing (or sharing) economic value, typically by giving back a small percentage of net profits. CSV, however, focuses on creating positive social change and sustainable sources of competitive advantage. Companies that pursue CSV design products to meet customers' long-term needs, and they expand into new markets to include those who were previously excluded. Such firms improve productivity while simultaneously reducing their environmental footprint. CSV means developing stronger competitive strategies that can support longer-term success.

“We need a more sophisticated form of capitalism, one imbued with a social purpose. But that purpose should arise not out of charity but out of a deeper understanding of competition and economic value creation. This next evolution in the capitalist model recognizes new and better ways to develop products, serve markets, and build productive enterprises.”

—Mark Kramer and Michael Porter<sup>174</sup>

### India has a unique opportunity to lead the globe in reinventing capitalism.

Business leaders around the world are discussing ways to create an improved capitalist model. In a world that still grapples with balancing economic and social growth, India has the chance to shape the path toward more conscientious value creation. Social inequity and environmental degradation are stark realities that Indians face daily. Yet rapid economic growth, and a deep tradition of companies giving back to their nation, give India a leg up relative to other countries that are struggling to determine the right approach. Indian corporations have an unparalleled opportunity to innovate and develop business solutions that can solve social problems and ignite economic growth.

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<sup>i</sup> High-net-worth individuals are defined as those having investable assets of US\$1 million or more, excluding primary residence, collectibles, consumables, and consumer durables.

## Companies must recognize social responsibility as shareholder responsibility and invest accordingly.

Corporate leaders increasingly recognize that social responsibility is a business imperative. In July 2011, Y C Deveshwar devoted nearly an entire speech to ITC shareholders to the topic of corporate responsibility.<sup>175</sup> During a recent panel discussion before Harvard Business School graduates in Mumbai, Anand Mahindra emphasized that Indian companies must do more to contribute to equitable and stable growth.<sup>176</sup> Large companies in particular have a tremendous opportunity to drive large-scale results—they have large distribution networks, experienced marketing and product development staff, and management teams that are accustomed to focusing on efficiency and results. Hewlett-Packard echoes this sentiment, noting: “Our workforce of more than 320,000 enthusiastic and talented employees is truly our greatest asset, and when combined with financial means, technology, and our vast network of partners, we aim to make a significant and sustainable impact.”<sup>177</sup>

To realize the potential of shared value, businesses must expand their mindsets beyond traditional CSR and invest in the resources (staff, funding, and research and development) necessary to craft initiatives such as those highlighted in this report. This approach is not to be taken lightly: it requires top-down commitment and real alignment with corporate strategy. *For further thoughts on how to get started, see “CSV requires a shift in your company’s mindset” below.*

## Government, civil society, and the private sector all have important roles to play in India’s future success.

Businesses contribute particular assets, such as distribution, marketing, and product development expertise, that the public and nonprofit sectors cannot always match. However, **individual companies cannot drive nationwide inclusive growth alone.** A variety of stakeholders should spur shared value creation.

### Government must create an enabling environment to incentivize corporate action.

The Government of India has an opportunity to seize the moment, leveraging the power, scale, and reach of business to help solve India’s social problems. The government can create an enabling environment by providing incentives for businesses to invest in initiatives that can create large-scale shared value. For example, the GoI can encourage companies to apply traditional CSR or corporate philanthropy resources (e.g., 2 percent of net profits) to research and development efforts for CSV projects, even funding profit-making innovations so long as they deliver substantial measurable social benefits. In addition, the GoI can enact legislation that drives investment in CSV. As examples from the financial services sector show, the Reserve Bank of India directly influenced corporate behavior by allowing for the creation of business correspondents. By freeing companies to serve banks—and customers—in new ways, the government created innovative opportunities to leverage the expertise and technology of others. The ICICI weather insurance and WaterHealth India examples point to yet another important way that the government can catalyze inclusive growth. By paying for services in collaboration with or on behalf of poor citizens, local,

state, and national governments can increase the demand for services and motivate the private sector to invest in developing solutions to the nation's ills.

“A multi-dimensional approach ... is required to address [development] problems. ... [T]he private sector is the most important engine of development, but it's also clear that the private sector can't do it on its own. There are critical things that have to be done by the public sector.”

—World Bank President Paul Wolfowitz, remarks at the Corporate Council on Africa Dinner, Baltimore, MD, June 23, 2005<sup>178</sup>

**The NGO sector should contribute on-the-ground ideas and expertise.**

Non-governmental organizations (NGOs) exist to identify, understand, and solve social problems, and India should make use of these valuable sources of market information and know-how. Reaching the last mile is often a challenge, even for companies willing to locate staff members in rural areas. NGOs with experience working in remote locations and with difficult-to-serve clientele can significantly improve the chances of success for a company introducing new products and services. Novartis's Arogya Parivar program is a case in point; it works with NGOs to organize health camps and disseminate health information.<sup>179</sup>

**Partnerships should enable companies to focus on what they do best.**

Social and small to medium enterprises are discovering innovative new ways to address customer needs. For example, Embrace began as a very small social enterprise interested in finding economically sustainable ways to reduce infant mortality. Today, their infant warmers are distributed by General Electric, a corporation with massive distribution networks and expertise. Companies may also choose to partner with other large-scale organizations that bring differentiated expertise and resources. For example, State Bank of India, Western Union, and Airtel joined forces to develop mobile money transfer services. Acquisitions, joint ventures, and other agreements allow companies to focus on those activities they are best suited to perform, increasing efficiency and allowing for larger-scale impact.

**All stakeholders should approach inclusive growth responsibly.**

Businesses, the Government of India, and civil society should work together to carefully balance economic and social benefits and to protect vulnerable populations. Used improperly, life-saving medicines can lead to drug resistance. Increased yields can reduce soil fertility in the long run if companies do not pair nutrient-depleting fertilizers with practices such as intercropping or applying compost. Access to credit can devastate families if they find themselves oversubscribed to loans and unable to keep up with payments. It is imperative that companies consider the effects of their actions on consumers and other stakeholders, not to avoid liability or short product lifecycles, but to maintain

competitive advantage and economic sustainability in the long run. Government and NGOs can play a key role in identifying and sharing concerns with the private sector. **To maximize effectiveness, all stakeholders should contribute to the development and implementation of innovative and practical solutions.**

[You can push this conversation forward.](#)

We invite readers to share thoughts and questions, and we encourage you to apply a long-term view, aimed at sustainable and powerful value creation, to your work. India is a land of incredible opportunity and bright ideas, and we look forward to continuing to explore the lessons business leaders provide as we work together toward inclusive growth.

“India today is this unusual combination of a country with millions of people making \$2 and \$3 a day, but with a growing economy, an increasing amount of cheap connectivity and a rising number of skilled technologists looking to make their fortune by inventing low-cost solutions to every problem you can imagine. In the next decade, I predict, we will see some really disruptive business models coming out of here—to a neighborhood near you.”

—Thomas L. Friedman, Pulitzer Prize winning author and renowned *New York Times* columnist, November 2010<sup>180</sup>

### CSV requires a shift in your company's mindset.

CSV is quite a different proposition from CSR, and companies should treat it as a long-term investment that is closely tied to business success. Such a vision often implies a significant change in mindset for employees. FSG has identified three common lessons that can help companies transition more effectively. First, a top-down approach is critical. Corporate leadership sets the tone for employees and guides decisions about allocating financial and human resources. Second, pursuing shared value is not a short-term endeavor. Though results are based on real, incremental economic value, that value may take years to accrue. And third, the skills and activities required to drive CSV are often quite different from a company's traditional CSR operations. Companies should treat a shift toward CSV as they would any significant strategic effort and apply management resources and principles accordingly.

### To get started, focus on creating a vision and strategy to guide the way.

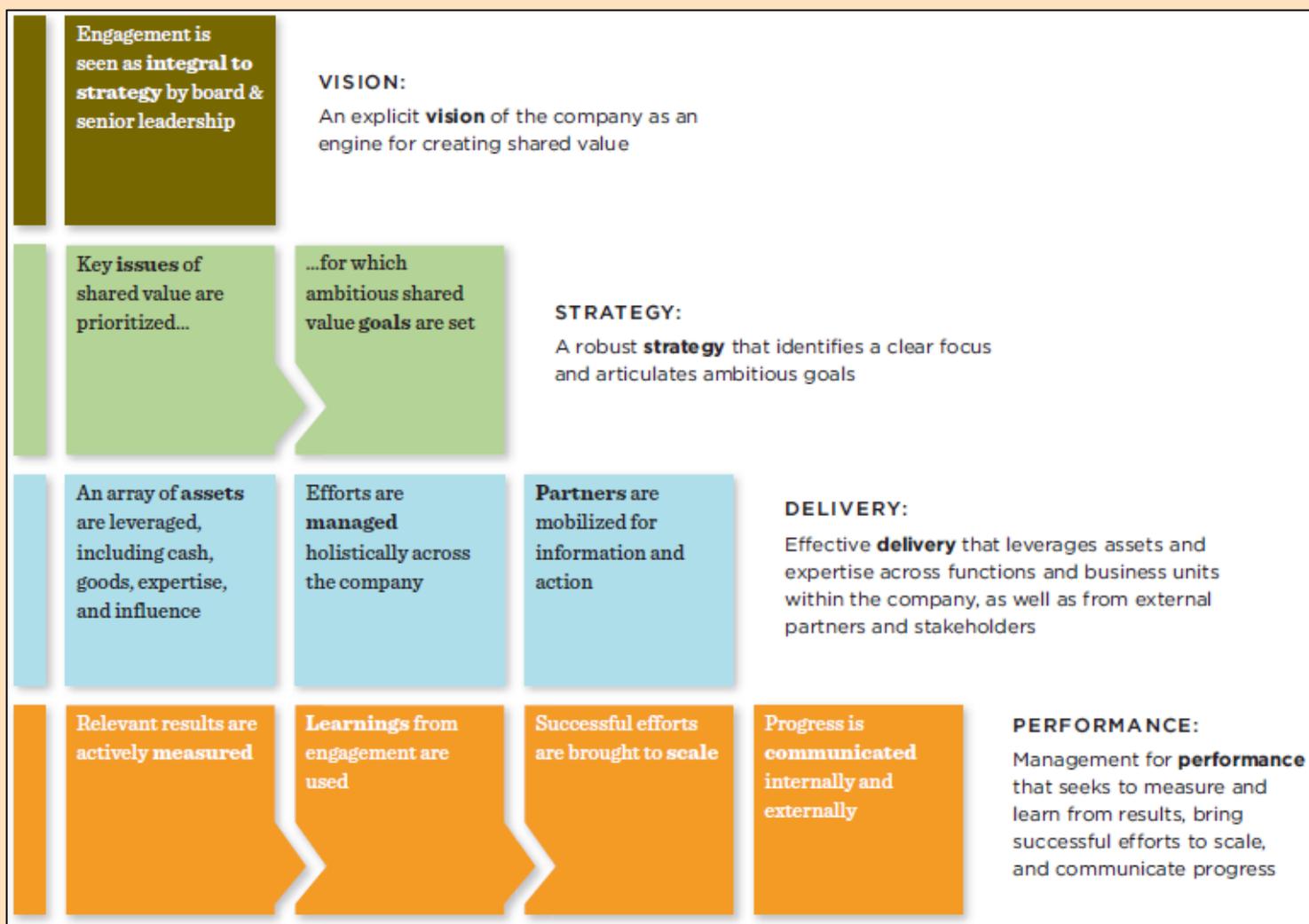
Creating true shared value involves making use of a particular organization's skills and resources against issues that affect its operations. As firms contemplate ways to create shared value, therefore, each must determine its unique approach. In early 2011, FSG shared 10 common building blocks (Figure 2) for pursuing shared value, drawn from our experiences working with dozens of leading corporations.<sup>181</sup>

These building blocks, while each important, should not necessarily be sequentially implemented. In fact, the first several (related to vision and strategy) are often intertwined. Experience shows that one of the biggest challenges to successfully creating shared value lies in starting the process. Sometimes, a company's CEO serves as an early champion, facilitating the development of a team, a vision, and a strategy. In many cases, however, other members of the firm's leadership must make the business case internally through a focused effort that creates a strong and compelling rationale and gains the approval of senior leaders. Without commitment at the top, companies are unlikely to marshal the resources, focus, and long-term thinking required to have a meaningful effect. Thus, as a first step, proponents of creating shared value should define the stakeholders who will be most critical to championing the work.<sup>182</sup> Typical candidates include the CEO, one or two influential board members, business heads, other executive committee members, and, in the case of family-owned businesses, key family members.

Next, CSV proponents should work with the team to identify an appropriate plan for moving forward. In our experience, they can begin the process by first identifying those business opportunities and constraints (for example, a lack of skilled workers) that represent strong options for the company to create large-scale, meaningful social impact by making use of its core assets and expertise.

From there, the team should develop a clear strategy for creating shared value that is anchored in an explicit vision and specific social and business goals.

Figure 2. The Building Blocks of Creating Shared Value



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