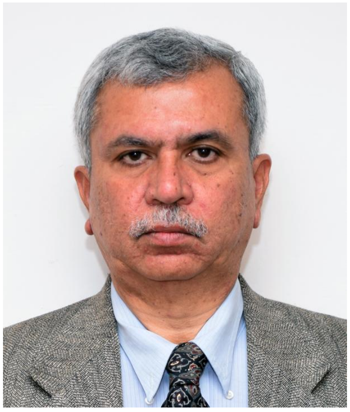
Innovative Investing to Create Social Wealth



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Impact investment is an important aspect of the social sector today. Brookings India reports that $10.8 billion were invested in 586 enterprises impacting 490 million or nearly half the population [1]. This covers everyone below the poverty line. The impact of these investments is still being played out and we will get a clearer picture later. Meanwhile, the traditional donation led grants have been estimated to be more than $10 billion a year, far more than impact investing [2].

First a definition of Impact Investing may be useful. There is no clear cut definition, but it covers investments that generate profits, but serve the poor, marginalized and the underserved sections of society. Impact Investors often invest in Social Enterprises.

There has been a philosophical shift over the decades regarding the social sector. It has moved from charity and grants to Impact Investing. There is a feeling that perpetual grants are not possible. It makes the target beneficiaries lazy and unproductive and so on. Impact investing does not believe in grants. Typical examples of successful social enterprises are in the health, education and agriculture sector. They often use technology to bring high quality, low cost services to the poor. Sometimes these services are subsidized by the Government.

Is there still a gap somewhere? The traditional grant making made the poor recipients of benevolence and charity. Modern impact investment treats them as clients or customers rather than beneficiaries. But will this create higher incomes, wealth or prosperity for the poor? Perhaps not, and this is the gap we need to address.

In an earlier article in this same journal [3] we discussed how land and other natural resources with the rural poor could be used to create wealth for all. Here we look at how enterprises can do this. Impact investing creates modest returns investors. Customers get benefits in terms of better goods, services, value for money and so on. Investments that source raw materials, good and services from the poor give better value to them. But the poor do not get any benefit of the wealth creation as they are not shareholders or investors.

The poor do not have money to invest. One way out was demonstrated the world over through Cooperatives. The International Cooperative Alliance reported that the top 300 Cooperatives in the world had a combined turnover of over $ 2.1 trillion and employed over 280 million. In India, Amul is great success story with a turnover of Rs.38,550 crore or over $500 million, impacting 36 million. There are several Cooperatives that are in the Fortune 500 list, including CHS a US based Agriculture Cooperative which is in the top 100. It is interesting to compare this with the Fortune Global 500 list. They generated far more revenue of $32.7 trillion dollars but employed far fewer people at 69.3 million [4]. We are not discussing Cooperatives here but the figures show that they have so far generated far greater social impact than new Impact Investing. Compared to the Global 500 List they have generated four times the employment while ensuring the small producers are the owners and so enjoy some wealth as shareholders.

There is one key difference between Impact Investing and Cooperatives. Impact investors own the Social Enterprises that are set up to serve the poor. However, when it comes to Cooperatives, the ‘beneficiaries’ themselves are the owners. These Cooperatives deliver sustained benefits to members, year on year for decades without any doles or subsidies. This is not true in India but is true in the market led economies of the West. Surprisingly, the world’s largest and most successful Cooperatives are in market led economies and not in Socialist regimes of Russia and Eastern Europe or Asia.

So how do we create Social Enterprises that not only benefit the poor, but are also eventually owned by them? Setting up Cooperatives is one way, along with the new form in India called Producer Companies. We need to explore other methods. Is it lack of enterprise, or lack of knowledge or lack of capital that prevents someone from becoming a shareholder or investor in an enterprise? Half of India’s 475 million workers are self-employed [5]. So there are a lot of enterprising people out there. This includes street vendors, auto and cab drivers, small farmers, fishermen, weavers, skilled craftsmen and so on. Today with the spread of information in local languages through technologies like what’s app, a lot of knowledge (and fake news) is widely available. So two of the barriers to ownership of enterprises – lack of enterprise and lack of knowledge is no longer there to the extent it was a couple of decades ago. So largely, it is lack of capital that holds things back.

Some things have already changed. Several groups of cab drivers and owners have set up their own what’s app groups. Their charges are lower than the professional services because they do not have to give any commission to Ola, but their service is far better. As of now there are dozens of them in Bangalore alone. During lockdown, at a small scale we saw groups of farmers directly connected to consumers, particularly for vegetables and fruits with or without external support. At a larger scale, we have Publix Super Markets owned by its 200,000 employees. Most interesting is that this is now in the Fortune 100 list [6]. So can we scale this up in India as well?

Let us consider a recent case study of Farmveda [7]. One of the Infosys co-founders believes in creating engines for wealth creation for the poor. He invested 99% of the capital as preference equity without voting rights, while the promoters invested a nominal amount to get 100% control of the regular equity shares with voting rights. The company has started making profits. Farmer groups are invited to invest in the company in return for equity. This builds the equity base of the company over the years. If Farmveda grows large, the promoter and investor can take their money out, but that is not the goal. The goal is to impact the lives of millions of small farmers. The farmers now numbering over 35,000 not only get the profits but also shares. In theory they can invest Rs.1000 per person bringing in Rs.3.5 crores, though this will take time. There can be all sorts of variations of this basic idea to set up such "Social Wealth Investments." Essentially the poor become shareholders over time, but the management is professional. The US law allows someone like Mark Zuckerberg with 18% shareholding to have controlling interest over the Board through differential voting rights for the shares he owns. Indian laws do not allow it, otherwise farmers could bring in external capital but retain controlling interest.

Is then any such "Social Wealth Investment" really a grant? In one way it is. But in a real sense it is the risk capital that the poor cannot bring in at first but can bring in over three to five years. It relieves the investor from making yearly grants, who also has the option of getting his or her money back if he so chooses. Typical sectors where this would be required are agriculture, horticulture, fisheries, street vending, auto and cab services, other transport services, and some kinds of real estate and infrastructure work that really requires skilled workers, a bit of capital and good management. These are essential goods and services and will hopefully be pandemic and disaster resistant. Simple ideas like giving contracts for sand mining to workers that we come across in some parts of the country need to be mainstreamed.

It should be approached as any other business, with proper evaluation of the business model by investors, good execution and so on. There will be failures like they are for other kinds of startups. Benefits of various Government incentives on taxes and low cost loans should be extended to such 'Social Wealth" Investments. While the Company like Farmveda may qualify, the investors do not qualify for any tax benefit. We need to develop a framework and a set of legal and regulatory enablers to kickstart such Social Wealth Creating Investments. Much of the knowledge to enable this is already available here and in the rest of the world. This will re-energize the social sector in a new way.

References

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[6] https://fortune.com/company/publix-super-markets/fortune500/

[7] See www.farmveda.in and www.ccd.ngo