

Green and Inclusive Businesses in India: Review and Survey Evaluation

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GREEN AND INCLUSIVE BUSINESSES IN INDIA: REVIEW AND SURVEY EVALUATION

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1. PURPOSE OF SURVEY

The Donor Committee for Enterprise Development (DCED) will hold a side event on “enabling green and inclusive markets” at the UN Global Compact Corporate Sustainability Forum on June 18th 2012.

The side event will give policy makers and the private sector an opportunity to discuss approaches to facilitate the success of green and inclusive business through an improved business enabling environment. At this event, India’s experiences with green and inclusive businesses will be reviewed and evaluated. India’s government side will be represented by the Indian Institute for Corporate Affairs (IICA).

The event focuses on how to facilitate a business enabling environment for green and inclusive markets. Therefore, it was essential to receive some feedback on the general framework conditions in India in advance. With the help of New Ventures (World Resources Institute’s (WRI) center for environmental entrepreneurship), four Indian companies were identified as green and inclusive businesses (see below for a short description of each of these companies) and asked to take part in a survey. The survey focused on a range of framework conditions, which were split into the following sub-groups:

- i. Investment Climate
- ii. Regulatory Environment
- iii. Non-Regulatory Environment Industry-led initiatives
- iv. Fiscal and other Redistributive Measures
- v. Access to Finance
- vi. Networks and Communications

Additionally, one of the inputs of the event will be a report on “Policy measures to support inclusive and green businesses” drafted by *Endeva*. The report tries to outline the synergies that exist between environmental sustainability and inclusiveness in business models, as well as showing the risks in scenarios that exclusively aim for greening or inclusion. To realize these synergies, there needs to be innovation in technologies and business model as well as policy measures to set the right framework conditions. The surveys provide a valuable input into this.

It needs to be stressed that the outcome of the survey, with its extremely small number of participants, is not representative for the framework conditions in India as a whole, and specifically for green and inclusive businesses in India. It should, however, provide some quick insights on what are widely seen as supportive measures and conditions, and where there is scope for improvement.

2. REVIEW OF GREEN AND INCLUSIVE BUSINESSES

This review of the businesses that operate in green and inclusive markets provides an overview on what products these companies specialize in, as well as the way they promote inclusion of vulnerable people and preservation of the environment. Additionally, their business models are briefly outlined.

(1) Greenlight Planet

Greenlight Planet designs and distributes solar-powered lanterns to low-income rural customers in India and Africa. The aim of the company is to provide efficient and environmentally friendly light to off-grid villages where the majority of people are using kerosene lanterns. From the very beginning, Greenlight Planet focused on a solution that was self-sustaining and market-driven. Therefore lights had to be made cheaply and had to be reliable enough to create demand amongst villagers. The problem of reaching customers and earning trust was overcome in collaboration with field workers. Since then, the business has, according to their own data, reached over a million people in India and Africa and has been awarded with several prizes, like the *Ashoka Lemelson Foundation's Solar For All Award 2010* as the most innovative “Bottom of the Pyramid”-focused solar business.

The core of the business is twofold. Firstly, product design and innovation had to consider affordability and durability. Greenlight Planet also provides means of after sale services. Secondly, distribution networks have to be far reaching (e.g. reaching very remote villages) and at the same time be efficient and cheap. The company builds on a large network of local agents (*Saathis*) as distributors to the last mile. These sellers are considered Village Direct Sellers and according to the Greenlight Planet, they constitute a “game changing” form of distribution network.

Inclusion aspect: It serves poor, off-grid villagers with alternative light solutions that are affordable and more durable than alternative products. It focuses on regions where energy shortages are most frequent. According to a third party study, nearly half of their customers have reduced their monthly kerosene usage by 50%, saving money and providing extra work time opportunities in the evenings.¹ Furthermore, the distribution network provides new job

¹ Further estimates of the study: 25% of customers reported an \$18 a month increase due to 2-hours extra work time available. Children study time is estimated to have jumped by 74%. 84% of customers perceive improved home air quality, and 94% feel much safer with the solar lanterns than the kerosene lanterns.

and income opportunities for local villagers. These rural micro-entrepreneurs have added an extra \$45 to their monthly incomes and are provided with skills training.²

Green aspect: Solar lanterns replace environmentally hazardous kerosene lantern and provide an alternative and more efficient source of light. Greenlight Planet also uses quality inputs in their production. For example, the lanterns batteries are effective and long-lasting so that replacement does not happen very frequently.

(2) Waterlife

Waterlife tackles the acute lack of safe drinking water in India. Contaminated water is widespread in the country and results in diseases and deaths. Initially, the government built large Water Treatment Systems (WTS), which, however, became quickly defective due to a lack of Operation & Maintenance (O&M). Waterlife pioneered a business model, in which they took care of long-term O&M by charging small user fees for safe water. In cooperation with the (local) government, Waterlife expanded its work to 7 states and has made more than 17,000 installations. The community water systems (CWS) provided by Waterlife will be maintained for 5 to 10 years, after which the villagers own and maintain their own CWS.

Inclusion aspect: Village customers have access to clean drinking water, which has positive effects on their health. This in return, has positive impacts on their incomes and savings (and the wider economy). A reduction in disease means villagers can work more and save more of their incomes. Children especially benefit as well, as they are less sick, have more time as they are not forced to catch water for the family (particularly for female children) and are more able to attend school. Local business also benefit directly, as they operate as distributors of the water. Additionally, local people are hired and trained to operate, maintain and service the CWS.

Green aspect: During production, Waterlife focuses on using green technologies. For example, they treat arsenic with a bio-remediation solution. The system is also energy-efficient as it does not require grid-power. Generally, Waterlife helps store and conserve the entire water eco-system.

(3) VayuGrid

VayuGrid focuses on renewable energy solutions, using non-edible oil seeds as biofuels for diesel engines. This diesel is able to power transportation, agriculture equipment, and captive energy solution. VayuGrid supports local entrepreneurs in India's farming communities to form groups of farmer with marginalized land that can be used for elite oilseed saplings. In doing this, the marginal land becomes more productive and raises money for the farmers and their families. Additionally, there is close cooperation with the consumers of the elite oilseed saplings for an end-to-end solution from upstream biofuels plantation development, oilseed processing, and demand-side market development for oil. The oilseed saplings are used domestically and in international markets in Africa, Middle East and North America. Throughout the different business stages, VayuGrid has worked closely together with universities and research agencies.

² Many of the rural villagers earn less than \$2 a day; therefore a \$45 increase in monthly earnings is substantial.

Inclusion aspect: Suitable local farmers have the chance to become small-scale entrepreneurs, be responsible for a local business and also receive higher incomes if the cooperation is successful. Farmers are able to use land that was previously not used productively. As the seeds are non-edible, it does not reduce scarce food supply to vulnerable groups.

Green aspect: The oilseeds need only a limited amount of water and thereby preserve scarce water resources. Additionally, they replenish the soil by nitrogen fixing. More significantly, they replace petroleum based diesel fuels, reduce emissions and are CO2 neutral.

(4) Sustaintech India

Sustaintech is an innovation based start-up company that promotes a fuel-efficient wood burning stove for commercial kitchens. The stove was developed by a local non-profit organization Technology Informatics Design Endeavour (TIDE) which did not have the capacity to promote and sell the stove effectively. The only feasible way for the production of the stove was to generate (small) profits, so that from the NGO, Sustaintech developed to carry out the commercialization of the stove. The company was only able to succeed and fine tune the stove by winning prize money from the Ashden Award. Currently, the stove reduces fuel use by at least 40% (firewood or charcoal).

Inclusion aspects: It promotes efficient stoves in remote areas at affordable prices. Villagers are able to save time and money by using the more efficient stoves. Sustaintech estimates that it saves consume between Rs 14,000 and Rs 40,000 each a year (approximately between US\$ 6,900 and US\$ 19,700). In additionl, the stove is smoke-free and therefore has positive health effects for vulnerable people. The involvement of poor people in the production or distribution of the stoves is not currently clear.

Green aspects: By reducing firewood use, deforestation is slowed and green house gas emissions reduced.

3. FRAMEWORK CONDITIONS FOR GREEN AND INCLUSIVE BUSINESSES

3.1 Investment Climate

In regards to the general investment climate, the major obstacle in India is considered to be the **physical infrastructure**. Transportation costs for material and people, electricity prices and shortages, access to inputs and also the conditions of roads and rail and associated delays are all considered to be obstructions for efficient operations. Sustaintech sees a specific major obstacle in the quality of the roads in the last miles to reach off-grid villages, which significantly increases production costs. Greenlight Planet argues that it has found a way to compensate these costs by using a new-form of local network systems (see above).

There is also mutual agreement on the negative impacts of levels of **bureaucratic efficiency**. Although good pockets of governance exist, there is still scope to further improve the efficiency and transparency of the government bureaucracy in India. There are still several challenges to address in regards to business agreements, financial services and some laws.

In regards to **economic openness**, the responses were mixed. Although Waterlife does not export its product to foreign countries, they argue that a free flow of information, knowledge and technical products is vital for any company that specializes in new green technologies and has also supported them. However, the two companies that actually do export their produce (Greenlight and VayuGrid) see the economic openness, or rather the lack thereof, as a major obstacle to their operations. Especially the banking system and transfers in and out of India, seems to be major challenges.

Another mixed result is visible in responses referring to terms of access to **qualified labour**. Whereas Waterlife argues that the qualified labour situation in India is actually relatively good, the other businesses disagree, and especially note that well qualified and reliable management staff seems to be scarce in India. Sustaintech even argues that the major obstacle is not the lack of staff per se, but rather that green businesses are relatively unglamorous and therefore the pool of qualified labour that is willing to work for green and inclusive businesses is particularly small.

Generally, **market opportunities** were seen as positive by the businesses surveyed. The potential pool of customers is huge as the produce of these companies could potentially benefit all vulnerable population groups, not only in India. Greenlight Planet and VayuGrid have already explored foreign markets successfully. There seems to be a robust and rising demand for green and inclusive product solutions, in India and elsewhere.

Access to **technologies**, and especially **green technologies**, is seen as both very important and not a major problem in India. International businesses can learn and use appropriate international technological practices. Additionally, there has been some government support for the development of new and greener technologies, although one respondent noted the scope for more support and room for improvement in India's R&D culture.

3.2. Regulatory Environment

On balance, the regulatory environment could be argued to be an obstacle, rather than support to green inclusive businesses in India, albeit to a small degree and not to all businesses. Again, it should be stressed that this point refers to the survey done of four companies and is therefore not representative for the regulatory environment as a whole, and specifically not for green and inclusive businesses in India.

The **quality infrastructure** (e.g. production and product standards, certification etc.) is, by and large, considered an obstacle. Strict adherence to quality and standards do not exist in the country and has therefore been developed by the companies themselves. Waterlife argues that the poor quality infrastructure in the country is a result of the concept of tender in government processes.

The process of **formalizing a business** is additionally seen as an obstacle, as the many registrations that need to be done often result in unnecessary delays. Sustaintech gives an example of how it found regulatory factors challenging. The non-profit organization TIDE had developed the efficient stove and also had the capacity to engage in commercial activities. However, as a charity, they were not allowed to engage in these activities, even though it was clear that profits were only needed to scale up the business. As a result, Sustaintech had to be created out of TIDE, had to bare the burden of registering a new organization with legal status and going through many lengthy registration periods. This said, one company, Waterlife, disagreed and stated that formalizing a business is straight forward in India.

Waterlife also takes a different view to the other businesses when it comes to **labour market regulation**, as they view them as satisfactory. The other businesses, on the other hand, see it as a major obstacle.

The businesses noted how **obligatory and voluntary targets** for providing goods and services to disadvantaged groups supported green and inclusive businesses. They also noted that Corporate Social Responsibility (CSR) measures have had many positive impacts on vulnerable groups. There is also special bank lending to the social sector, which can have an important positive impact for the low income producers and consumers when implemented correctly. For example, Waterlife has been supported by the National Bank for Agriculture and Rural Development (NABARD).

3.3 Non-Regulatory environment-industry led initiatives

On the whole, environment-led and industry-based standards are not very relevant for green and inclusive businesses in India, often because they do not exist. For example, **Environmental Management Systems** do not exist in India and many companies, therefore, are either unaware or do not give priority to the environment. More generally, appropriate **industry standards** would be a chance to achieve more business confidence and efficiency, but are also still broadly missing in India. Additionally, the lack of proper quality standards and enforcement often result poor solutions and low quality competition in green and inclusive businesses.

Eco-labeling and **Environmental accounting** also do not exist in India, though they are deemed potentially useful. On the other hand, **Corporate Social Responsibility (CSR)** was seen as a supportive measure for all companies surveyed, , although it is left to companies themselves to engage in effective CSR and for many other companies CSR is more of lip-service than actual activity.

3.4 Fiscal and other Redistributive Measures

Generally, it seems to be the case that many fiscal and other redistributive measures are not applicable and relevant for the companies under consideration. Tariffs, subsidies and grants for green and inclusive businesses or for competitors by and large were not considered very relevant by the surveyed companies, with some exceptions.

For example, Sustaintech and Waterlife complain of an unnecessary burden of taxing BoP consumers for investing in green products and that the **general tax rules** are not very favourable for new businesses. Furthermore, **tariffs** for “brown industries” exist but are rarely complied with, whereas tariffs for green and inclusive industries do not seem to be applicable to the companies.

In terms of **subsidies**, though the government seems to have promised some form of subsidies to green and inclusive businesses, no concrete action so far has taken place. This harms the efficiency of business planning as it creates uncertainty over support (or the lack thereof). Perhaps surprisingly, **subsidies for environmental harmful products and services** are not seen as obstacles. Instead, Sustaintech even argues that the phasing out of subsidies for fossil fuels is supporting their initiative.

3.5 Access to Finance

Restricted financial access is one of the main obstacles that the four companies face. It is difficult to gain access to working capital. VayuGrid is looking for international finance because they view that India's financial restrictions make it too difficult to receive enough capital nationally. Only Waterlife disagrees with this, and noted that the open and competitive national and international financial markets are a strong support for their business.

In review, **access to credit** is generally seen as an important obstacle for the development of green and inclusive businesses. Companies that work in green and inclusive markets are often relatively small (start-up) businesses, who work in a field where public opinion still views the sector as unprofitable. Therefore, in addition to being smaller companies that generally find it hard to gain access to credit, green and inclusive businesses also have to fight widespread prejudices, which make access to credit even more challenging.

On the other hand, access to **international financial markets** is regarded more optimistically, as foreign investors are seen to be more willing and prepared to take more risks with green start-up companies. However, due to some domestic restrictions on foreign capital, the companies find it quite challenging to engage in foreign financial markets. Other financial support, like **grant and other supportive financial measures** from national government and aid agencies do exist, but are only viable if a company matches the specific criteria supported by the government or other agencies.

3.6 Network and Communication

In this section, the surveys specifically asked what kind of business networks and communication surveyed businesses were aware of and how helpful they were, or could potentially be. To varying degrees, all categories included in the survey were considered important, even if not existing already.

Public-private dialogues were considered very important by surveyed businesses (although only half of the companies were engaged in one). They noted as key that a public-private public dialogue is not enough and that follow-up is needed as well. As with most other sectors, a **consumer-producer dialogue** is another vital feature of a successful green and inclusive company. This feature is arguably even more important in green and inclusive sectors, as consumer are often vulnerable people who do not have a lot of money to spend and therefore spend much of it on necessities. Additionally, the advantages of green products are not widely known, and they often do not match traditional norms, and therefore they need extra explanation. For example, Waterlife argues that their new product will change social behavior within communities and therefore need to include much education and awareness raising.

Platforms for knowledge exchange exist with most of the surveyed companies and are also deemed vital. However the executions of follow-up to these platforms are often highly delayed. Cultural factors are important, and Sustaintech argues that face-to-face networks are particularly important in India (vis-à-vis Online-Platforms).

A relatively new and promising phenomenon is the development of **incubators for green and inclusive businesses**. The incubators have sprung up mainly in reputed educational institutes and act both as a testing ground and provide significant support and mentoring for green and inclusive start-ups. Potentially, this can have a huge benefit for future green and inclusive businesses. Similarly important is the establishment of **financial supply networks** that increasingly exist throughout India. More and more financial institutions are getting into the field of micro-finance which is critical not only for vulnerable people generally, but also for

the companies that provide the products for the poor. Nevertheless, it businesses surveyed noted that much still needs to be done to improve the financial networks and that access to capital remains a huge challenge.

4. CONCLUDING REMARKS

It should be stressed again that the survey does not provide a complete and comprehensive review of the general green and inclusive business framework conditions in India. Instead, it aimed to offer some qualitative and sector-specific insights on what framework conditions are supportive to the business enabling environment and which are more of obstructive.

There was some agreement between the surveyed companies on the key issues, for instance that physical infrastructure was one of the main obstacles their businesses faced. Though many businesses in India are affected by a lack of efficient transportation, arguably green and inclusive businesses are affected even more so as their customers often live in remote and inaccessible parts of the country. On a positive note, the market opportunities are widely seen as good. There appears to be robust international and Indian demand for energy sensible solutions, including among more vulnerable groups. If the right framework conditions were to exist, the companies surveyed would seem to have a significant opportunity to perform well in green and inclusive markets.

Finally, there is still scope to improve the network and communication aspects of the business environment for green and inclusive companies. These companies have a challenging starting point as their customers are usually poor, meaning usually that only small profits can be earned, as and they sell a product which often goes against traditional standards and norms. Therefore they (and the government) need to further educate people on the advantages of their greener products, which would cost money and effort. A stronger public-private dialogue also seems desirable, especially in terms of concrete follow-ups to dialogue. Perhaps the event at the Corporate Sustainability Forum can provide an important step in this direction.