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An Overview of Philanthropy in India

Arpan Sheth | March 19, 2010

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Ladies and Gentlemen,

It is a great honor for me to be here at the Indian Philanthropy Forum and to speak on *The State of Indian Philanthropy*.

For those who know Bain and for anyone who does not, Bain's credo is a passion for results – in other words, the results of our clients. Bain also is known for its straight talk. We tell it like it is. These two guiding principles are the foundation of Bain's work. But they do not apply just to making our clients more profitable and more efficient. They reflect our commitment to delivering the kind of results that make stronger communities. In fact, committing time and energy to work with nonprofit organizations is a part of Bain's DNA. We have pro bono relationships with leading private organizations – NGOs – that include the Clinton Foundation, Refugee Council and World Childhood Foundation, among others. In India, we work with NGOs such as Pratham and Goonj.

It is this commitment to our communities that led Bain to incubate the Bridgespan Group, a nonprofit consultancy, in 2000. Bridgespan uses the same knowledge and skills that help build leading corporations to create world-class nonprofit organizations. Bridgespan's aim is – and I quote – “to build a better world by helping nonprofit organizations achieve breakthrough results in addressing society's most important challenges.” Bridgespan's client list of more than 200 organizations includes some of the best-known names in philanthropy, such as the Harlem Children's Zone and the Bill & Melinda Gates Foundation.

With this background, let me focus on our objectives this morning:

- Sharing some basic facts about the state of philanthropy in India today
- Addressing the potential for high-net-worth individuals (HNWIs) to do more for philanthropic ventures

As other speakers have mentioned, there continues to be a profound need in India to help those with less. Let's look at a few disturbing facts:

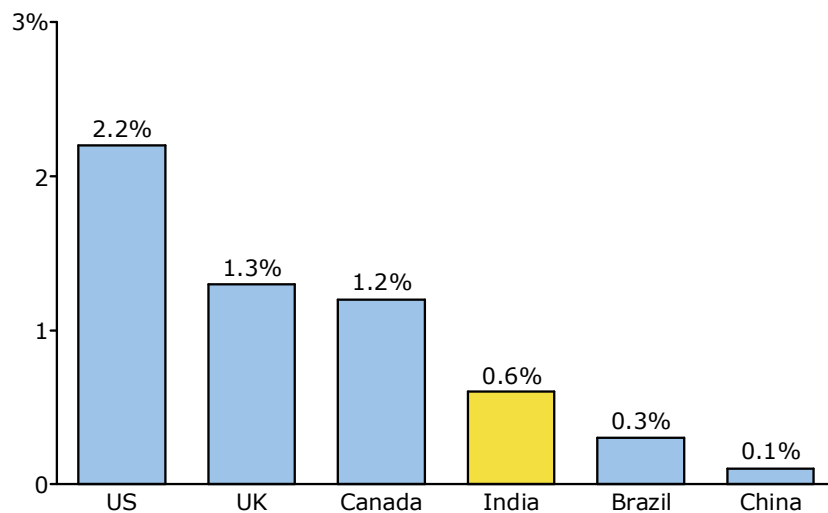
- For more than a decade, our nation has been successful at lifting a large number of people out of acute poverty. However, the numbers of those in deep poverty are still staggering. Today, more than 400 million people – around 40 percent of India's population – live below the poverty line. The World Bank defines poverty as living on less than \$1.25 a day.¹
- The recent global downturn has only made the challenge of reducing poverty in India even more monumental. It has pushed an additional 25 million to 40 million citizens below the poverty line.²
- The monumental problems and needs that result from such a massive, impoverished population are chronic. The challenges include providing primary education to children who often are homeless to widespread malnutrition to high maternal mortality, to name just a few.

So, given the scope of the tremendous challenges that we face as a society, how are we faring as a country in meeting them? The encouraging news is that India leads other developing nations in charitable giving. However, we still lag far behind developed economies.

In 2006, India's giving totaled close to \$5 billion. That would translate into \$7.5 billion in 2009 based on gross domestic product (GDP) figures if the rate of giving remained steady. According to Bain analysis, philanthropic donations would amount to 0.6 percent of India's GDP. In Brazil, the rate of giving is 0.3 percent and in China, just one-tenth of 1 percent, so we are faring well when compared with other emerging nations. But this is cold comfort given the enormous needs of the poor and disadvantaged in India (see Figure 1).

Figure 1:
Giving in India leads that of other developing nations but lags developed nations

Charity contribution as percentage of GDP



Now let's look at how we compare to the United States, the world's leader in giving. Annually, Americans make donations totaling slightly more than \$300 billion – or about 2 percent of the US gross domestic product.³ Admittedly, the US is a far more developed economy and the comparison between its figures and India's has its limits. But the figure is impressive by any standard. This comparison makes us realize we still have a long way to go, especially as a growing number of Indians accumulate wealth.

So, we must ask ourselves this urgent question: What will it take for our giving to reach the levels of the US or the United Kingdom, where philanthropy tops 1 percent of GDP annually? The question is even more pressing given our economy's continued vigorous growth.

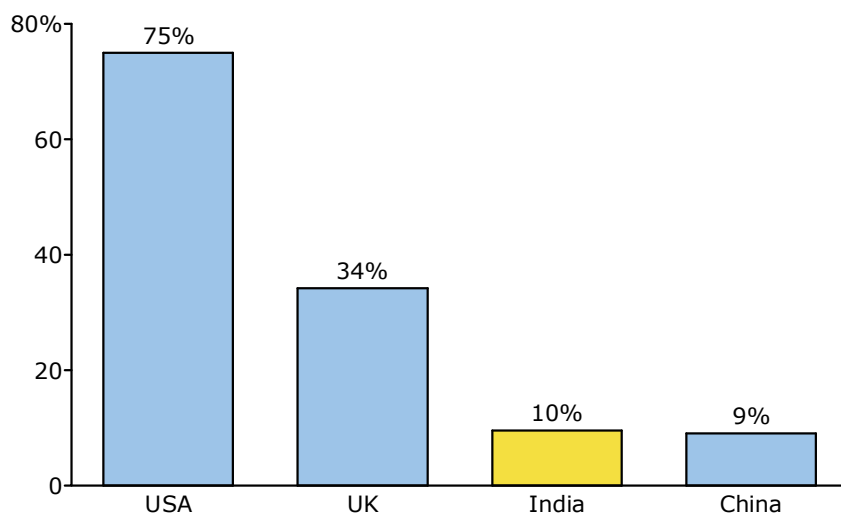
Before answering, we need first to understand how philanthropy works in India today. The philanthropy chain is made up of three major stakeholders – donors, supporting networks and charitable organizations or grassroots nonprofits.

- *Donors* include individuals, corporations and governments – both central and state – that donate money either directly to charities or to support charitable organizations like the Red Cross. Generally, most donors prefer to reach out directly to grassroots NGOs.
- *Supporting networks* are global operations such as the Red Cross and United Way Worldwide as well as dedicated funds like the Prime Minister’s National Relief Fund, which raise and distribute money to charities. These support networks are not very prevalent in India – and most are not on a large scale. This is why so many donors give directly to grassroots-based nonprofits.
- *The final group – charity organizations or grassroots nonprofits* – disburse donations as part of their charitable activities. In India, we have many examples of local organizations such as Care Today and Dastkar.

Each of these groups plays an important – and distinct – role. The giving chain starts with donors. Yet individual and corporate donations make up only 10 percent of charitable giving in India (*see Figure 2*). The balance of the philanthropy comes from foreign organizations and the government. In fact, nearly 65 percent is donated by India’s central and state governments with a focus on disaster relief.

Figure 2:
In India, individuals and corporations contribute only 10 percent of giving

Share of individuals and corporates to total contribution



As a nation of givers, our profile is closer to China, where giving by the government far exceeds donations by individuals. By comparison, nearly three-fourths of all philanthropy in the US is undertaken by individuals. This tradition reflects America’s history and culture of individualism as well as a supportive tax structure. Even more impressive – this high rate of charitable giving by individuals has been remarkably consistent for a number of years.

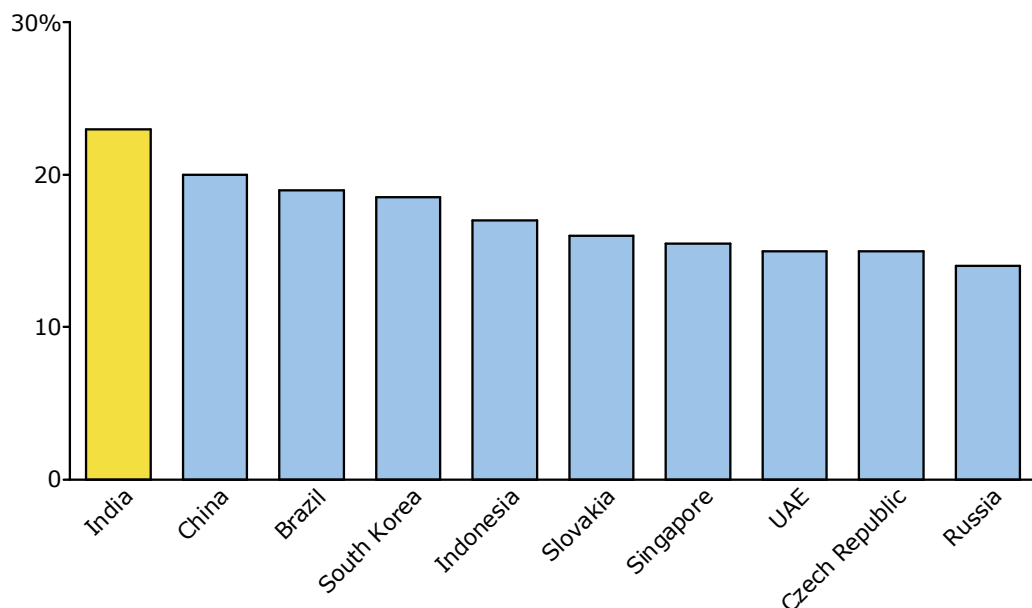
So what can we do to increase the level of philanthropy here in India? Should individuals, particularly the well off, be giving more? And can they afford to make more and larger donations? The answer to both questions is, “Absolutely yes.”

A close look at India’s growing class of wealthy individuals leaves no doubt that they have the capacity to be more active givers. Bain research shows that nearly 40 percent of the nation’s wealth is controlled by the top 5 percent of India’s households. Breaking that down even more, the wealthiest 1 percent controls about 16 percent of the national wealth.

As India’s economy grows at a fast clip, so do the number of wealthy individuals. Our research shows that there are over 115,000 high-net-worth individuals in India today. Since 2000, this elite group has grown an average of 11 percent annually. Between 2006 and 2007, the number of wealthy individuals in India surged by 23 percent – possibly the highest growth rate in the world (see Figure 3).

Figure 3:
Growth in the number of high-net-worth individuals is highest in India

HNWI population growth, 2006-2007 (by market)



But when we look at the generosity of our wealthier population, we see that giving does not necessarily rise with income and education. Just look at charitable donations across three classes in urban India – middle, high and upper – as defined by income and education. When we look at giving as a percentage of household income, donations by the wealthy actually go down. In fact, the wealthiest, or “upper class,” have the lowest level of giving at 1.6 percent of household income. The high class, which is ranked one level below the “upper class” on the income and education scale, donates 2.1 percent to charity. Even the middle class gives 1.9 percent of household income to philanthropy.

Clearly, there is room for those with means to give more. So why aren't they? Why aren't we? You and I know that it is not because Indians do not have heart – that is definitely not the case. We are a generous people: Just ask any guest who is welcomed into our homes, or consider how we go out of our way to support family and friends.

To understand the challenge before us, we need to look at the three major factors that constrain giving in India. The first factor: We believe that the relatively recent accumulation of wealth by individuals inhibits philanthropy. The number of wealthy individuals in India started growing rapidly only after the economic reforms of the 1990s. Normally, it takes 50 to 100 years for philanthropic markets to mature. Today in India, many of those with hard-earned new wealth are not eager to part with even a small amount of their money. As a society, charitable donations do not necessarily win social recognition. Instead, many of the newly wealthy view increased material wealth as the key to improving their social standing. A Bain analysis of 30 high-net-worth individuals in India showed that they contribute, on average, just around one-fourth of 1 percent of their net worth to social and charitable causes. But remember, even the great philanthropists – John D. Rockefeller, Andrew Carnegie and J.P. Morgan – did not give away their riches until toward the end of their lives.

Another factor impeding contributions is a belief by donors that support networks are not professionally managed, and as a result, their contributions won't be put to good use – or are at risk of being misappropriated.

Finally, for some, the lines may be blurred between personal giving and corporate social responsibility initiatives. Much of corporate India is run by family-owned groups. Among the top 40 business groups, nearly 70 percent are family-owned or -controlled enterprises. It is likely that some families and individuals view corporate responsibility initiatives as extensions of their own giving. And that may curb their interest in making personal donations.

These reasons notwithstanding, we should be able to give more as our nation's economy – and the number of wealthy individuals – continues to surge. But to increase the number of individual donors, nonprofits must earn their confidence by becoming larger and more professional.

Let's look at *donation-support networks* in India. Most of them are in their infancy and that limits their impact. We need to help these networks increase

their activities and efficiency so that donors are confident their contributions will have a significant impact. Just look at United Way in America. It is able to have a dramatic impact on communities in need, with annual revenues of \$4 billion in 2007.⁴ It has distributed funds to nearly 1,300 organizations with clearly defined missions. United Way operates in India as well, but United Way India is tiny when compared with United Way in America.

Private foundations offer another support network for distributing funds to charitable organizations. In the US, foundations play a critical role, thanks to the country's tax laws. With inheritance tax rates of nearly 46 percent for large estates of more than \$2 million, wealthy individuals have a large incentive to create private foundations before death. There is no such inheritance tax in India or in many other nations, including China and Australia.

The largest 100 foundations in the US have more than \$200 billion in assets. These assets are used to help underwrite philanthropic activities. When the assets of all US foundations are added up, the total available to fund nonprofit work was nearly a staggering \$700 billion in 2007. This massive asset base allows foundations to have not only a national impact, but to extend their impact throughout the world. Given their size, these are professionally managed institutions and collaborate closely with grant recipients and charity operators. In other words, they are not simply money-giving machines. They raise the bar, increasing the power of their donations to help those in need. India's foundations can learn valuable lessons from their American counterparts.

- Take the Bill & Melinda Gates Foundation: The scale of its efforts is truly impressive. The foundation is funded by the fortune amassed by Microsoft's Bill Gates. In India alone, it provides more than \$1 billion for health and AIDS initiatives. Worldwide, the Gates Foundation has underwritten a global health initiative that has immunized more than 200 million children. The foundation has recently committed \$10 billion over the next decade to "help research, develop and deliver vaccines" for the world's poorest nations.⁵
- The David & Lucile Packard Foundation is similar in size and impact. It has been able to prevent the deaths of nearly 100,000 infants and 6,000 mothers in India as well as more than 3 million unwanted births. The foundation achieved success by working with Janani, a nonprofit service organization.⁶

These examples are dramatic proof that foundations and donation support networks can have a tremendous impact in India. This is desperately needed funding that can provide aid to the millions suffering in abject poverty.

The good news is that more and more wealthy individuals in India are establishing foundations. For example, the Bajaj trusts have amassed \$150 million, and the Bharti Foundation, started by Sunil Mittal, has slightly more than \$60 million. As the number of wealthy individuals continues to accelerate and more foundations are created, one can foresee a day where foundations in India

play a growing role in addressing the needs of the impoverished, helping them lead healthier and more productive lives.

We've looked at ways to grow the effectiveness of two major stakeholders in India's philanthropy value chain: individual donors and supporting networks. But what about the third group? This constitutes grassroots nonprofits and charity operations. There are some 2 million charity operators in India. The vast majority are run with the best of intentions, but without the transparency, processes and professional staff required to reassure donors and encourage large contributions. In all of India in 2006, there were only about 500 that operated on a large enough scale (more than \$100,000 in income) to be effective. If we're going to reduce poverty in India, we'll need more – many more – professionally run, large-scale charity organizations.

But there are many obstacles. Like many aspects of Indian life, archaic laws and bureaucracy hinder both the growth and operations of nonprofits. There is an urgent need to reform our laws and taxation policies and create a more supportive climate for charitable organizations.

Here is a short list of the hurdles and laws that make the work of charity operators more difficult:

- Foreign funds or operators must obtain a Foreign Contribution (Regulation) Act certificate. That can take up to a year.
- Donors who provide material goods receive no tax benefits.
- The current tax deduction structure does not encourage donations. Current tax laws allow deductions of either 50 percent of the amount given or 10 percent of taxable income, whichever is lower. However, there are exceptions where 100 percent deductions are available; for example, contributions to relief funds established by the central and state governments.
- The cumbersome *bureaucratic process required* to obtain tax exemptions from the government hinders the smooth operations of NGOs.

Those involved in the world of philanthropy – nonprofits, such as Dasra, government agencies and donor support networks, such as the Red Cross – need to do more, and are, to create a system that gives donors like you greater confidence and more incentives. They understand that to boost giving, they must become more transparent, professional and effective. At the same time, the government must remove the obstacles that discourage philanthropy from flourishing in India.

Despite these challenges, I expect a culture of philanthropy to firmly take root in India. Our growing wealth will seed a new generation of professionally run institutions that foster giving.

After all, India's powerful economic engine is expected to produce thousands of millionaires in coming years. There is no reason why our wealthiest citizens should not do more for those with less. *And they must.* India needs their philanthropy. It is a win-win.

Look at how Vineet Nayar of Tech Mahindra is harnessing his wealth. His recent 30-crore rupees gift to the Essel Social Welfare Foundation is a high-profile example of philanthropic giving in India.⁷ Nayar understands that philanthropy is not only the right thing to do but also the *smart* thing to do. A more equal and less impoverished society benefits every one of us. A healthier, better-educated population means a more secure and prosperous India.

In closing, I would like to thank Dasra for giving me the opportunity to speak to this highly reputable group of donors and representatives of both support networks and NGOs. It has been a privilege.

Thank you.

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