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CASE: Deval Sanghavi A

In March 2000 Deval Sanghavi, former investment banker, sat in the shiny New York offices of Morgan Stanley, but his thoughts were 12,000 km away in the dusty villages of rural India. His fundraising target had been exceeded. Should he accept the unexpected offer of $1 million to launch India's first venture philanthropy fund?

Deval Sanghavi

Deval Sanghavi was born of Indian parents and raised in the US. He graduated from the University of Texas at Austin with a dual honours in Business and Finance, plus a minor in Asian Studies. After graduation in 1996 Deval was offered his first job with Morgan Stanley in New York City. While he regularly visited India on family holidays, in reality it was a country and culture foreign to him.

At Morgan Stanley, Deval worked in the Strategic Finance Group advising leveraged buyout shops and private equity investors to understand sectors, vet management teams and find investments that could create significant return on investment through the infusion of growth capital and managerial support.

During his second year at Morgan Stanley, Deval met his wife to be, Neera Nundy, a Canadian of Indian origin. As investment bankers linked by a common heritage, they often thought about how their business skills could be used in the Indian charitable sector. Deval decided not to renew his contract with the bank, but instead take time out to understand how Indian non-profits worked and the challenges they faced on the ground. Deval decided he would commit two years volunteering with grass roots organisations in Indian villages.

Despite working an eighty-hour week as an investment banker, Deval spent time to research issues of poverty and development and meet leaders in the field, including Maya Ajmera, an Indian who founded the Global Fund for Children. Deval consulted with development experts from the Grameen Foundation, American Jewish World Service and United Way International. After research, and as much due diligence that could be achieved from a distance, Deval shortlisted four Indian NGOs he would offer to volunteer with.

The Non-Profit Sector in India

During the late 1990's India was sustaining annual economic growth rates of 6 - 8%, but was also home to more of the world's income-poor than any other country. Using an international poverty line of $1 per day (measured at a 1993 purchasing power parity exchange rate), about one-third of the world's poor in the mid-1990s lived in India. While income and hunger poverty persisted throughout the country, the central states were particularly deprived. Challenges included poor access to basic services, insecure tenure of housing, loss in productivity, poor water and sanitation conditions and an inability to access formal credit mechanisms. In 1999, Indian ranked 132nd in the Human Development Index.

India had a vast and complex civil society tradition working on all aspects of social, human and economic development, with over a million non-profit organisations, only half of which were formally registered. Registering non-profit organisations such as NGO's or foundations, especially for those who received donations from abroad was a long process and required regulation under the Foreign Contributions Regulation Act (1976). The social enterprise sector in India was in the early stages of development with only a handful of ventures achieving any scale or significance – such as SELCO, a solar lighting business.

A Transforming Experience

In September 1999 Deval moved to India, spending time in Delhi, Mirzapur (Uttar Pradesh), Kharagpur (West Bengal) and Mumbai, while Neera continued working for Morgan Stanley back in New York

During his first weeks, Deval spent time with each of the four NGOs he'd selected trying to assess their strengths and weaknesses and working out how he could best assist them. One general impression he reached quickly was how "management was the last thing on people's minds", which often meant that well-meaning organisations and motivated individuals did not maximise social impact. After disbursing the funds he'd brought with him to all four NGOs, Deval focused his remaining time on two of them – one a microfinance programme in Utter Pradesh and another an educational charity near Calcutta. "I found the analytical and problem-solving skills I'd honed as a banker were directly relevant to helping these two organisations develop." Despite cultural and organisational frustrations, Deval enjoyed working at this level, finding that NGO staff "inspired confidence and had the tenacity and know-how that came from dealing everyday with the harsh realities of life in rural India".

In March 2000, after six months working on the ground, Deval returned briefly to New York on a fundraising trip. He planned to return to India to disperse the cash raised in ways that met the management and operational challenges of

Disha, one the non-profits he had volunteered with, convinced he had found a powerful philanthropic model in the mix of management support and grants. His first meeting in the New York was with the CEO and Chairman of Morgan Stanley, Dick Fisher, who was sympathetic and personally pledged a gift of $150,000. While visiting Morgan Stanley, Deval was offered a promotion to an Associate if he returned to the bank. "People thought I'd got India out of my system", reflected Deval, "and it was time to get back to what they considered to be a 'real job'". He didn't pursue the offer.

He felt that Fisher's grant was a great start, but nothing had prepared him for his second meeting that week - with Ramanan Raghavendran.

Ramanan's Proposal

During this fundraising tour of Lower Manhattan, Deval was introduced through a mutual acquaintance to Indian-born private equity investor Ramanan Raghavendran, a young Managing Partner at Insight Venture Partners. Ramanan was about to launch Insight's Indian technology venture capital fund, Connect Capital, in Mumbai, with investors including Microsoft and Dell. Sitting over dinner, each swapping PowerPoint presentations, Deval and Ramanan shared a deep intuition that the tools and philosophy of 'US-style' venture capital could be adapted to invest in suitable Indian non-profits and social enterprises. During the conversation Ramanan told Deval that he and two of his Indian entrepreneur friends were ready to put significant resources from their private wealth into such an initiative, but they needed someone to lead it. The more they talked, the more Ramanan was convinced he'd found the right man for the job. "I have $1 million available now" Ramanan told Deval. Ramanan asked him to return to

India and set up a new philanthropic fund in Mumbai to support a portfolio of high-potential non-profits – organisations that provided no possibility of an economic return but could generate a large social return. "This is definitely surreal", thought Deval, "something I never expected to happen". By the time dessert arrived, Ramanan was talking of possible follow-on funds, perhaps raising as much as $15 million from the Indian Diaspora business community. In the financial boom, Silicon Valley's Indian entrepreneurs had created companies that Fortune magazine estimated to be worth $235 billion.

Which Way Forwards?

When Deval flew back to New York to raise funds, his plan was to return to India for a further another 18 months to continue his grassroots work with a small non-profit organisation, implementing his model of "money plus management advice". But Ramanan wanted Deval to establish himself in India's financial capital, Mumbai, to set up a venture philanthropy organisation, capitalised with a million dollars. Deval had to consider his options and make a decision.