



LEADERSHIP CASE

ARAKU ORIGINALS LIMITED

Araku Valley is an inaccessible, dramatically beautiful highland, 2,900 feet above sea level in the southern Indian state of Andhra Pradesh. Life is hard: as in most of the world's isolated places, subsistence farmers survive in a cycle of intergenerational poverty. Many live in houses they built themselves from mud bricks, and many, eating only what they can grow, are malnourished.

When Manoj Kumar first travelled here, there were many things

that rocked him. Araku had sky-high maternal and infant mortality rates. Schools had been abandoned. People lacked options: there was little to buy at the market, and even less cash in the system. "There were landmines, there was terrorism. There was malaria. Nobody had any form of sustainable livelihood," he says. "They were dependent on welfare. There was alcoholism."

“ ARAKU HAS A SOCIAL MANDATE, BUT IT IS VERY MUCH A BUSINESS: ONE THAT IS DOING WELL, WITH THE OBJECTIVE OF DOING GOOD. ”

Manoj was the bright son of a hard-working, middle-class family in Kerala who expected him to be successful in a conventional career path. And initially, that's what he did: he studied economics, and joined a development bank. But early on, a sense of community had seeped into his soul, calling him to work deeper in the social space. The strong socialist leaning of his childhood society had instilled the principle of working for others. He grew up reading Russian philosophers; especially Tolstoy's writings moved him in its exploration of what it means to be human. He recalls being disturbed by the lack of self-reliance, the bleak reality of many.

But there was also a pivotal incident for Manoj: on a field visit in his job with the development bank, he had spent time gaining insights from a certain rural community, and in particular two women who were mother and daughter. As the time to leave approached, he asked whether he might take a photograph of the two together. It wasn't possible, he was told, because they had between them only one piece of cloth to wear.

"I never got over that; that I was living in a world in which two people shared one set of clothes."

He left the bank and set up a microfinance institution offering small loans to help poor people achieve some kind of sustainable independence. Following advice to avoid the risk of romanticizing poverty by really living it, he went to live within that community. It was, he says, a great education in marginalized peoples' lives and priorities. But soon the limitations of this work became apparent: creative financial instruments helped a few people, but could not

ABOUT MANOJ

In 2000, **became founding CEO of Naandi Foundation**, which provides large-scale delivery of public services to 16 Indian states.

**A 2010 Kamalnayan Bajaj Fellow**; a member and moderator of the Aspen Global Leadership Network.

Transitioned from a career in development banking to the social sector.

In 2010, **founded Araku Originals Ltd** as a for-profit subsidiary of Naandi; serves as CEO.

**A 2013 McNulty Prize Laureate.**

In 2012, *Financial Times* named Manoj one of its "25 Indians to watch."

address the broader system.

Manoj took the next step: leaving the microfinance business, he joined the non-profit Naandi Foundation as CEO. Naandi—the word in Sanskrit means “new beginning”—represented a new wave in the then-undeveloped non-profit sector in India. The dominant model at the time had effectively required non-profit workers to themselves live a life of poverty. Naandi, by contrast, was structured as a professionally-run public charitable trust, managed by eminent business leaders as trustees, and partnering with public and private sectors, national and global civil society organizations. Its mandate was to midwife large-scale delivery of public services such as safe drinking water and sanitation, sustainable agriculture, maternal safety and early childhood development.

Naandi had its sights set on Araku Valley, considered to be the toughest of challenges. Many agencies had tried, but none had made meaningful inroads towards arresting a downward spiral of poverty and dependence. The local people—the adivasi, or indigenous population—had, Manoj discovered, become cynical, attuned to conditional aid from politicians and the transactional relationships offered by many aid givers. The first question they would ask, was what Naandi was fishing for.

Positive transformation would require building trust, and that would take time. It would require the humility of authentic listening. And so for two years, that’s what he and the group of young people Manoj calls his “field-level fellows”—people drawn from these communities—did. Communicating often in sign language, they spent hours listening, watching and waiting. Eventually, their patience bore fruit. “When the adivasi opened up about maternal mortality, that gave us an opportunity to do something,” says

## ABOUT NAANDI & ARAKU ORIGINALS

- **Naandi is one of the largest and fastest-growing non-profits in India**, disrupting the sector by creating a sustainable model for large-scale, efficient and outcomes-based delivery of government programs.
- **Araku Originals Ltd is a mission-driven for-profit subsidiary of Naandi, and an end-to-end business supporting farmers from seedling to market.** It is cooperative-based, linking farmers to small loans, assisting with fair trade and organic certification, and providing other support.
- It is one of the world’s largest organic coffee cooperatives and fair trade companies, with over 13,000 entrepreneur farmers in over 500 villages. **More than 25,000 farming families have been lifted out of poverty.**
- Araku has established **a flagship store in Paris**, and has boutique buyers in Europe and Japan, with more to come.

Manoj. “We were honest that we had hardly any experience in this area: but we said we would find out. That put us on equal footing”—making “beneficiaries” equal partners in finding solutions is central to Naandi’s philosophy. “So we activated government services, and brought in experts to train local people as health service providers, and the adivasi saw how that worked. We saw a glint of admiration and respect.”

In time, deeper and more profound dialogues opened up. By the time the conversation turned to agriculture and livelihoods, Manoj was, in his own words, possessed. “I was not leaving the area until we had transformed it. Every year I used to have a gathering of up to 1,000 farming families: ‘We will transform this space,’ I used to say. ‘People will start to call this the Gold Valley, because you will make money to buy much gold.’ Or, ‘This valley will be called the Green Valley, because we will bring the forest back.’ The first two or three years they used to laugh. By the fourth or fifth year they started to say, ‘We believe it.’ Getting people to believe, starts with you believing it. It may be a kind of insanity, but it’s fundamental when you’re trying to do something difficult.”

That certainty of belief is also required when a vision becomes action. The adivasi had nominated coffee as their agricultural crop of choice, and Manoj, without any expertise in coffee, had agreed to help them start an employee-owned fair trade company. They had also committed to a biodynamic approach: it is labor-intensive but cost-free. Naandi needed to raise start-up funds, and to bring in expertise across several dimensions such as soil fertility, coffee cultivation and microbiology. So the non-profit took a loan, warning the bank there’d be an extended payback period; and Manoj went





on a global roadshow to enlist the world's coffee experts.

These experts were skeptical. Fair-trade and organic coffees had never done well, they pointed out. Coffee had never, as a crop, been kind to small farmers. The dream of biodynamic coffee farming as a transformational sector of agriculture was mad. "But many of them got carried away by this madness, and agreed to break their protocol, and to come and see us," Manoj says. "I believe it was the authenticity of my ignorance that made them come at first."

As the plan unrolled, Manoj was taxed by sustainability and scaling issues. Though he had worked with marginal farmers for a decade, he had never found a way to make a real impact on poverty. "It was during my Aspen Fellowship that the epiphany happened," he says: what was needed was to break out of the charity model, and develop a social for-profit model that used the power of equity and markets—not grants and subsidies—to build self-reliance. The farming operations needed to become a sustainable private enterprise that would serve a larger social need over the long term.

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And so Araku Originals was registered as a company. The concept began to flesh out: it would provide end-to-end services, cutting out profit-hungry middlemen. It would develop a global gourmet brand and create a market for it. Like any commercial operation, the farming co-op would generate enough profit to pay for these value-adding services while still increasing income to farmers. But in order to achieve all these, there were some significant challenges. The labor-intensive biodynamic approach meant costs were high; the terrain and the co-op model meant quality inconsistencies would need to be managed, and coffee itself is a

challenging crop in the first place. The berries need to be picked at a particular pitch of redness, and must be processed within 12 hours. For the calculus to work out, Araku coffee needed to be top quality, a speciality coffee; and Manoj would have to drive this.

He found an economic solution, going from village to village and spreading the word that top prices would be paid for the best berries, when delivered on time. The farmers were responsive: in time, the coffee Araku was producing reached extremely high quality, and in bulk—by now, there were more than 14,000 participants in the scheme.

That created its own problems: the speciality market was too small for the volumes as more farmers joined in. Manoj's next challenge was to create his own market—a global market where buyers would pay a premium for top-quality coffee with a social impact. That meant he had to find out how retail worked. Literally, Araku was turning into an end-to-end value chain.

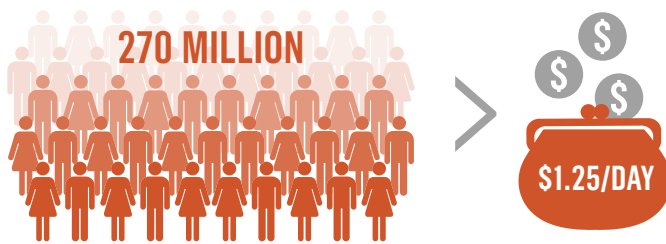
Manoj has been changed irrevocably through the Araku project: by what he's learned about the world of coffee and the biodynamic paradigm; and by the spirituality of the adivasi—their deep connection to earth, air and water. And he describes, too, experiencing unconditional love in the adivasi communities. "Perhaps it is biological; perhaps it is sociological conditioning, but in hundreds of cases, I have felt it when I am with them." It's clear that Manoj feels fortunate in this work.

Araku has a social mandate, but it is a business: one that is doing well, with the objective of doing good. There's a flagship Araku Originals store in Paris, and Shanghai is next. But it is the difference the coffee project has made to the lives of the adivasi that continues to inspire Manoj. They have become entrepreneurial, and brimming with pride. They are making a living in harmony with nature. The adivasi have climbed out of poverty and have achieved that ultimate measure of dignity: self-reliance. Araku is the proof of concept Manoj had sought: a model for the implementation of market-based solutions across Naandi's program areas, and beyond.

# THE CONTEXT OF RURAL POVERTY

Poor roads, government neglect and Maoist insurgency have resulted in deep isolation in the Araku Valley. Mainstream India considers the inhabitants “untouchable.” They use the term “adivasi,” which means “first inhabitants.”

Approximately 270 million Indians live on less than \$1.25 a day.



Most of India's poor live in rural areas.

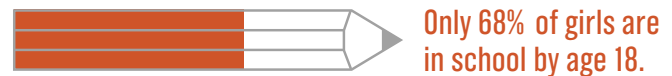


While the adivasi constitute roughly 8 percent of India's population, they are vastly overrepresented among the poor.

Almost half of adivasis live on



Educational access in rural areas is improving, but quality lags.



Many 18 year olds cannot read a 2nd grade textbook.

20%



While maternal mortality in India is declining, about five women die every hour from childbirth complications.



## IN HIS OWN WORDS: WHAT MANOJ HAS LEARNED

### The market is a solution.

"It was during my Aspen Fellowship that the epiphany happened—a social for-profit could add value by processing, branding and reaching global markets. It could scale up and build a replicable template where freedom from poverty, gender equality, sustainability and development is done through equity and markets, not grants and subsidies."

### It starts with your own conviction.

"Getting people to believe something starts with you believing it. It may be a kind of insanity, but it's fundamental when you're trying to do something difficult."

### Ignorance has its own value.

"I believe it was the authenticity of my ignorance that won the world experts over."