


Enablers for Change

A Market Landscape of the Indian Social Enterprise Ecosystem



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**Deutsche Gesellschaft für
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Private Sector Development
2nd floor, B-5/1, Safdarjung Enclave,
New Delhi 110 029
T: +911126715964/5968
F: +911126715967
E: manfred.haebig@giz.de
www.giz.de

Responsible

Manfred Haebig, Director Private Sector Development, GIZ India

Coordination

Stefanie Bauer
Stefanie.bauer@giz.de

Editorial and Research

Katherine Miles & Trina Datta,
Ernst and Young Pvt. Ltd.

Design

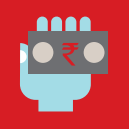
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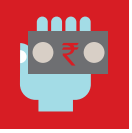


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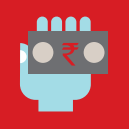


Abbreviations Index

AGLN	Aspen Global Leadership Network
ANDE	Aspen Network of Development Entrepreneurs
ASEI	Asian Social Enterprise Incubator
BMZ	Bundesministerium Für Wirtschaftliche Zusammenarbeit (German Ministry of Economic Cooperation and Development)
BOP	Bottom of the Pyramid
CDC	Commonwealth Development Corporation (UK)
CEO	Chief Executive Officer
CESD	Centre for Educational and Social Development
CFO	Chief Financial Officer
CII	Confederation of Indian Industry
CIIE	Centre for Innovation, Incubation and Entrepreneurship
DFID	Department for International Development (UK)
DSI	Dasra Social-Impact
EMPE	Emerging Markets' Private Equity
FICCI	Federation of Indian Chambers of Commerce and Industry
GBF	Grassroots Business Fund
GDP	Gross Domestic Product
GIIN	Global Impact Investment Network
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
GOI	Government of India
GSBI	Global Social Benefit Incubator
GSVC	Global Social Venture Competition
HNI	High Net Worth Individual
HR	Human Resources
I3N	Intellectap Impact Investment Network
IAN	Indian Angel Network
ICT	Information And Communication Technology
IDEA	Innovation and Development Alliances
IDRC	International Development Research Centre
IFC	International Finance Corporation
IIIF	India Inclusive Innovation Fund
IIM-A	Indian Institute of Management, Ahmedabad
IIT M	Indian Institute of Technology, Madras
INR	Indian National Rupee
IPO	Initial Public Offering
IRIS	Impact Reporting and Investment Standards
IRR	Internal Rate of Return
IT	Information Technology
ITC Ltd.	India Tobacco Company Limited
IVCA	Indian Venture Capital Association
KfW	Kreditanstalt für Wiederaufbau (Germany)
LLC	Limited Liability Company



MSMEs	Micro, Small and Medium Sized Enterprises
MA	Millennium Alliance
NCR	National Capital Region (India)
NEDFI	North Eastern Development Financial Corporation
NGO	Non-Governmental Organization
NIInC	National Innovation Council
NSE	National Stock Exchange (India)
PSIG	Poorest States Inclusive Growth
RAC	Research Advisory Committee
RTBI	Rural Technology Business Incubator
SEBI	Securities and Exchange Board of India
SGB	Small and Growing Business
SIC	State Innovation Council
SIDBI	Small Industries Development Bank of India
SME	Small and medium sized enterprise
SRI	Socially Responsible Investing
SVCL	SIDBI Venture Capital Limited
TARA	Technology & Action for Rural Advancement
TIFAC	Technology Information, Forecasting and Assessment Council
TREC-STEP	Tiruchirappalli Regional Engineering College - Science and Technology Entry Program
UK	United Kingdom
UP	Uttar Pradesh (India)
USA	United States of America
USAID	United States Agency for International Development
USD	United States Dollar
VBI	Virtual Business Incubator
WWF	World Wildlife Fund



Executive Summary

Social enterprises that not only deliver financial but also social and environmental returns for those at the 'bottom of the pyramid' (BOP) and society as a whole are being promoted as an integral solution towards sustainable development and inclusive growth. This study sets out a market assessment on the incubators and impact investors that act as enablers of the social enterprise ecosystem in the India. It doing so it clarifies the services these different organizations provide, their business models and sector-wise, geographic and service related gaps, as well as the challenges they face from the individual perspectives of system enablers. It draws on a series of stakeholder consultations including an online survey, and desk research of a sample of 16 social enterprise incubators and 33 impact investors active in the country.

It describes the international and national policy context related to discussions on inclusive business model innovation and social enterprises, access to finance for Micro, Small and Medium Sized Enterprises (MSMEs). In turn it maps out the social enterprise ecosystem providing illustrative examples of the typical products and services that incubators provide. The following products and services are identified and defined:

- Infrastructure;
- Access to human capital;
- Mentoring;
- Advisory services;
- Training programs;
- Funding;
- Awards and competitions;
- Research and publications;
- Events; and
- Network access.

The incubator landscape is mapped on the basis of both desk research and the online survey highlighting that there are limited social business incubators in the market and those that do exist are characteristically small not-for-profit, grant-funded organizations, with a concentration in the metros. It identifies the fact that these vital contributors to the social enterprise ecosystem are typically grant funded. Furthermore, while there is a wide range of services offered by these incubators, there is further scope to increase the amount and geographic penetration of these services, specifically through business plan competitions, access to infrastructure and mentoring services.

Similarly, the impact investment landscape within the country is mapped out. It identifies that the sector is heavily dependent on foreign sources of capital, particularly from the USA and hence there is an opportunity for greater engagement by domestic investors. It concludes that there is a lack of transparency of basic market information on the sector, including on the sources of capital of investors, and the size, recipient and geography of investments made. In addition, there is considerable scope for greater transparency and accountability on the impact of these investments to illustrate the potential of the sector to make a difference and contribute to inclusive growth.



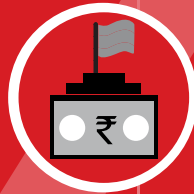
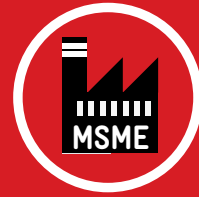
This study clarifies the challenges facing the social enterprise ecosystem and also indicates existing or potential solutions to address the challenges as identified through the stakeholder consultation for the study.

These include:

- Access to Finance;
- Access to Talent;
- Scaling Up;
- Regional Inclusiveness;
- Sourcing and Pipeline;
- Capacity Building and Training;
- Impact Measurement, Transparency and Reporting;
- Ecosystem Coordination, Policy and Regulation; and
- Investment Exits.

The latest developments and engagement by bilateral agencies on the theme are described including the DFID – SVCL Samridhi Fund, USAID and FICCI's Millennium Alliance and GIZ's proposed future engagement through its broader Responsible Enterprise Finance Program.

In conclusion, the study identifies that there is a lack of comprehensive information for all organizations active in the ecosystem and there is a need for greater transparency and information sharing between all stakeholders. Finally, it provides a number of recommendations for GIZ in terms of its potential future role in the social enterprise ecosystem in India in order to support social enterprises meet their potential and contribute to the country's inclusive growth agenda.





1 Introduction

Innovative small and growing businesses¹ with significant impact potential and a predicted high growth trajectory are currently being promoted as part of the answer to the world's sustainability challenges. Stakeholders such as investors, governments, and NGOs have pinned their hopes on the success of these micro, small and medium sized businesses (MSMEs) to not only deliver financial but also social and environmental returns for those at the 'bottom of the pyramid' (BOP) and society as a whole.

Both globally and in India, this trend is illustrated by the increased availability of equity funding for social enterprises. According to a global impact investment market study by JP Morgan, and the Global Impact Investment Network (GIIN), investors see this as a market 'in its infancy and growing' with almost USD 4 billion planned for investment in 2012.² The Monitor Institute estimates that over the next 5-10 years impact investments will grow to 1% of global assets under management. As a result, this type of investment is now regarded by some as a new asset class.³

This development extends to India where impact investing was noted as a key trend in a recent GIZ study, conducted by Ernst and Young, on the trends for responsible finance in the country. However, as an industry it is still at a nascent stage facing many challenges. Existing challenges that stand between the promise and reality for impact investors will need to be tackled for the industry's development to accelerate and meet not only investors' expectations but also to ensure it becomes transparent and sustainable over the long term. Some of the challenges stated by stakeholders in the industry include; a lack of an investment pipeline for investors; limited investment readiness of enterprises due basic management skills gaps; a lack of seed funding for start-ups; a lack of local capital including debt; high transaction costs for investors to identify and undertake investment due diligence on enterprises, particularly outside the metros; a low scalability of enterprises due to finance, human resource shortages and enabling environment constraints; and defining impact and performance of investments in enterprises.⁴

Since 2005 India has witnessed a considerable growth of social enterprises, many financed by the increase in availability of impact investment funding.⁵ These types of inclusive businesses have emerged in recognition that they will contribute to not only a more sustained GDP growth rate, but also a lower prevalence of poverty, improved health outcomes, and universal access to education, among other positive social and environmental returns.⁶

The Government has taken steps to foster the development of these enterprises through prioritizing national innovation, establishing the National Innovation Council (NInC) and capitalizing an India Inclusive Innovation Fund to provide finance for these start-ups.⁷ ⁸ Furthermore, the Government's Twelfth Five Year Plan has also emphasized the important role of social enterprises and innovation, firmly establishing these themes as priorities in the national policy agenda.⁹ ¹⁰

As a consequence, this growth and innovation of inclusive business models in India has attracted the attention of not just impact investors, and the government, but also business incubators and donor agencies concerned with promoting and encouraging innovative and high impact social businesses in India. In turn this has resulted

in the development of an ecosystem of support services for these private sector change agents.

A recent review of the landscape of social enterprises in India by Intellectap has provided a valuable overview of the characteristics and challenges these businesses face with the top three challenges to sustainability and scale cited by the businesses as hiring and retaining qualified staff, raising capital and building the value chain.¹¹ However, if the aim is to nurture such businesses through incubation, handholding and investment to be commercially viable, scalable and promote sustainable development, it is imperative to establish a common understanding of these barriers from different perspectives. Hence identifying challenges facing impact investors' and incubators, which have the potential to have negative consequences for social enterprises is of paramount importance. As a starting point, it is necessary to first review the broader ecosystem and identify the key organizations that provide support or finance to social businesses.

The objective of this study is to conduct a market assessment on the incubators and impact investors that act as enablers of the social business ecosystem in the country. This will promote an understanding of the services these different organizations provide and their business models and sector-wise, geographic and service related gaps, as well as the challenges they face from the individual perspectives of system enablers. In turn, it is anticipated that these findings will serve as a starting point for enhanced dialogue within the social enterprise landscape. Through this dialogue it is hoped that synergies and a coordinated action plan will emerge in order to strengthen the social business ecosystem in India and ensure the expansion of these innovative social businesses throughout the country.

Methodology and Report Overview

The methodology used for this study includes an online survey supplemented by desk research on a sample of 16 incubators and 33 impact investors active in the Indian market (See Annex). Additionally, it builds on face to face interviews with 12 sector representatives as part of a previous study on Responsible Finance trends in India, and subsequent bilateral stakeholder interactions on the theme. Finally, it incorporates feedback received by the participants of a multi-stakeholder roundtable workshop entitled 'Identifying an Agenda for Action - Overcoming Indian Social Business Ecosystem Challenges' organized by GIZ on the 30 May 2012.

In order to select the study sample, a list of the incubators in India was compiled and in turn the incubators that focus on serving enterprises aiming to create a social impact in critical sectors were identified for the sample. It should be noted that the numbers of technology-focused incubators in the sample were restricted for the purpose of this study.¹² The impact investor sample was selected based on the criteria that the investor publicly acknowledges their impact investment focus on India. As a result, internationally based impact investors are also featured in the list and not just those which are headquartered in India. The second criterion was that these investors had to publicly state that they were active in impact investments or investing in a sector that has a direct impact on BOP population. At least a part of their investment portfolio had to look at impact-first investments, rather than financials.

The report is structured to initially provide a background on the social enterprise ecosystem and the products and services typically offered by impact investors and incubators. Examples of both Indian and international impact investors and incubators are provided, however it should be noted these are not being cited as best practice examples, rather they serve an illustrative purpose only. In turn the study maps out the incubator and impact investment landscapes, before discussing the challenges in the ecosystem and solutions that already exist, and recent developments among bilateral and multilateral agencies, before concluding with recommendations for action.



Footnotes

- 1 Social enterprises and small and innovative growing businesses interchangeably in this paper, and are considered a subset of Micro, Small and Medium Sized Enterprises.
- 2 JP Morgan GIIN 2011
- 3 Monitor Group, 2009
- 4 GIZ, 2012
- 5 Intelcap, 2012
- 6 GOI, Planning Commission 2011 a)
- 7 GOI, 2011
- 8 GOI, Planning Commission, 2011 a)
- 9 Government of India, The Planning Commission, 2011 a)
- 10 GOI, Office of Adviser to the Prime Minister Public Information, Infrastructure and Innovations, 2011
- 11 Intelcap, 2012
- 12 A full list of the Government of India's Department of Science and Technology (DST) Technology Business Incubators is available online at: <http://www.nstedb.com/institutionaltbi-center.htm>





2 Background – Mapping the Social Enterprise Ecosystem

The developments of the social enterprise ecosystem should be considered in the context of policy discussions at both a national and international level where inclusive innovation and social enterprises are priorities.¹³ This chapter seeks to shed some light on the policy context, and clarifies some of the key terminologies and concepts for the landscaping results. It also endeavors to place the discussion about the promotion of social enterprises in the framework of wider policy discussions about responsible finance, access to finance for Micro, Small and Medium Sized Enterprises (MSMEs), and innovation around inclusive business models.

Innovation as a National Priority - The Indian Policy Context

Inclusive innovation among start-up enterprises is an Indian government priority. In 2010, the Prime Minister set up a National Innovation Council (NInC), under the Office of Adviser to the Prime Minister on Public Information Infrastructure & Innovations. It has the mandate to formulate a Roadmap for Innovations Promotion for 2010-20 with a focus on inclusive growth to spur the Indian innovation ecosystem.¹⁴ The National Innovation Council (NInC) states that the challenge for India is *'to innovate to produce affordable and qualitative solutions that address the needs of people at the bottom of the pyramid, eliminate disparity and focus on inclusive growth model'*.¹⁵ In its Twelfth Five Year Plan the Planning Commission builds on this innovation focus and calls for a *'new paradigm of innovation, focused on producing 'frugal' cost solutions with 'frugal' costs of innovation in which India may be emerging as a global leader'*.¹⁶

The Government of India has prioritized social enterprise innovation in its Twelfth Five Year Plan, as part of its 'Decade of Innovation', and is committed to establish an ecosystem of capacity-building around BOP-focused enterprises and entrepreneurship and providing entrepreneurs with the capacities to deliver on their ideas.^{17 18} In recognition that innovation requires risk capital to spur innovations and enterprises, yet seed stage funding for social enterprise start-ups has until now been limited in India, the Government has created a new fund called the India Inclusive Innovation Fund (IIIF).¹⁹ The IIIF, under the NInC headed by Mr Sam Pitroda, will focus on investing in 'innovative enterprises engaged in providing solutions for the 'bottom of the pyramid' (BOP).^{20 21}

According to the NInC's first annual 'Report to the People', the IIIF fund will be capitalised to an eventual target size of INR 5000 crores²² (over EUR 700 million), and is intended to give out seed funds and grants to companies at both early and growth stage focused on the BOP over a proposed 10 year period, extendable by up to 3 years. It is anticipated that 20% of the capital will come from the Government of India and 80% of its capital will be sourced from private investors, philanthropists, and bilateral and multilateral institutions. The fund will be autonomous and professionally-managed entity and will invest in enterprises focused on inclusive innovation, but also in other funds that currently invest in such enterprises.²³

The IIIF will seek to achieve measurable social returns to its investors in addition to the positive financial returns, through holding investees accountable to a range of non financial and financial performance criteria. There are four sources that the IIIF states that it will identify its investees from:

- Open Broadcast: essentially a public call for enterprises to solicit their interest;
- Angel and venture capital networks: that focus on early and mid staged MSME investment

- Community organizations: NGOs and non profits
- Other Funds focused on social enterprises: through co-investment or via these funds.²⁴

In addition to the financial support provided through the fund, a network of mentors will be created to build the capacity of enterprises.^{25 26} While the details are not yet provided, the NInC has stated that its incubation and mentoring programs will be undertaken by established academic institutions and venture support organizations.²⁷

Further to the government’s efforts to secure greater funding for these innovative start-up enterprises, it is also working to address a range of additional challenges. A solution to the lack of awareness of the enterprises is a platform for information sharing and dissemination of these enterprises. The government has already taken steps to implement this through the development of an India Innovation Portal, under the responsibility of the NInC.^{28 29} This portal highlights resources for the following sectors: Health, Education, Energy, Food and Agriculture, ICT, Science and Technology, Infrastructure, Environment and Natural Resources and Governance.³⁰

To build connections between different organizations interests in the ‘innovation agenda’ and to provide an answer to the lack of information exchange and awareness, the NInC is in the process of setting up State Innovation Councils ‘to stimulate the ecosystems for innovation in their states’.³¹ These SICs will ‘deepen the support system for innovation as well as identify State specific themes for innovation and address them, as well as identify critical constraints and map opportunities for collective solution building’.³² Among other activities the SICs will organize workshops on innovation, map the state level opportunities for innovation, and develop a state level innovation portal among other activities and hence provide collaboration opportunities for others active in this ecosystem.³³

To date State Innovation Councils have been established in the following 19 states:³⁴

Table 1 Global Sustainable Investment Market Estimates			
Arunachal Pradesh	Madhya Pradesh	Rajasthan	Goa
Himachal Pradesh	Lakshwadeep	Kerala	Delhi
Manipur	Karnataka	Puducherry	Punjab
Andaman & Nicobar Islands	Mizoram	Assam	Jharkhand
Bihar	Uttar Pradesh	Haryana	

Access to Finance - The MSME Financing Landscape

Access to all types of finance is a well recognized barrier for MSMEs. While the global volume of MSME finance is an approximate USD 10 trillion, the estimated credit gap for Micro-Small and Medium sized Enterprises (MSMEs) in emerging markets is in the range of USD 2.1 – 2.5 trillion, with 75-90 % of these MSMEs classified as either un-served³⁵ or under-served.^{36 37}

In India the MSME sector’s total finance demand is estimated to be INR 32.5 trillion (USD 650 billion) as of 2009/10 with 80% of the demand originating from the informal sector.³⁸ Hence access to finance is a key constraint for MSMEs owners, which is in turn exacerbated by non financial barriers that also restrict the access

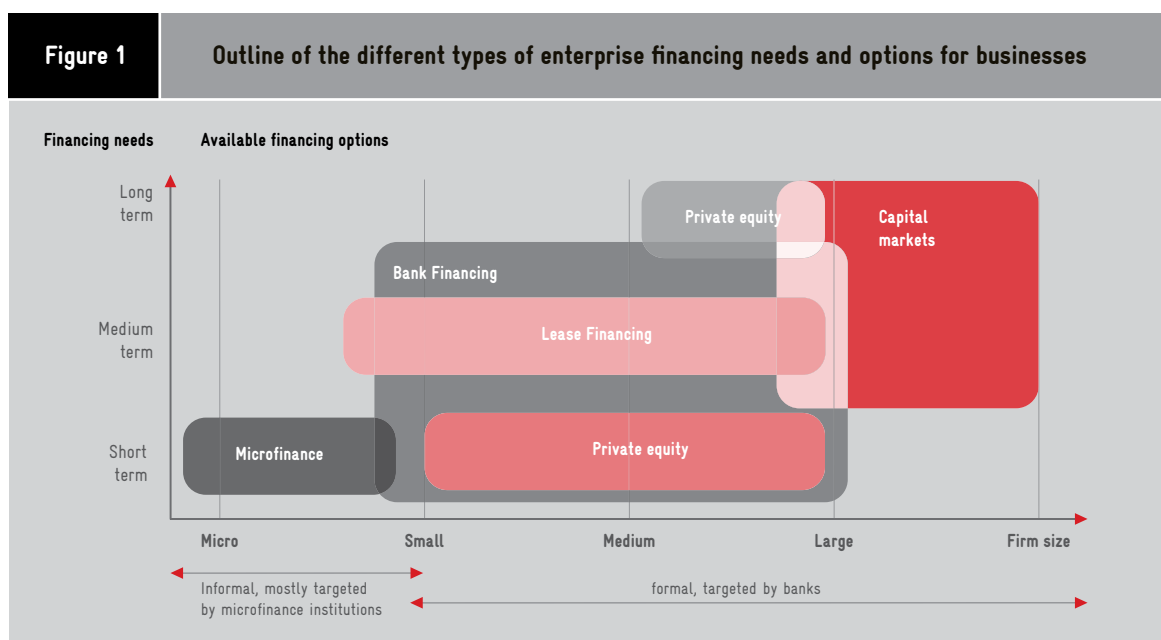


to finance and growth and profitability of MSMEs.^{39 40} To take steps to address this challenge and enhance the availability of equity for MSMEs, the Government of India announced the establishment of an INR 5000 crore (EUR 700 million) India Opportunities Venture Fund with the Small Industries Development Bank (SIDBI) in the budget 2012-13.⁴¹ Furthermore, SIDBI has established a SIDBI risk capital fund entitled the Growth Capital and Equity assistance for MSMEs (GEMs).⁴²

Promoting access to finance for MSMEs is a key area of inter-governmental focus. For example, the G20 has a 'Global Partnership for Financial Inclusion' group and has instigated a G20 SME Financing Sub Group to promote access to finance for SMEs.⁴³ Their publication, 'Scaling up SME Financing in the Developing World' made recommendations on how to scale up SME finance sustainably focusing on three areas:

(1) legislation, regulation, and supervision, (2) financial market infrastructure, (3) public intervention and support mechanisms.⁴⁴ Another example of this focus is the IFC which has a commitment to increase financial access to 3.1 million SMEs by 2013, of which 25% aims to focus on Women-Owned SMEs. At the national level, the Government of India's priority sector lending mandate has increased the focus on MSMEs by public sector banks with the Small Industries Development Bank of India (SIDBI) at the forefront, as well as strengthened the requirements for commercial banks.⁴⁵

It is important to note that at each phase of an enterprise's development it requires and draws on different types of finance for a variety of purposes and time lengths. Figure 1 illustrates these different financing options for MSMEs, based on the timing of their financing requirement and size. For example, initially at the early stages of development MSMEs draw on financing from their own savings, family and friends, and also microcredit from Micro Finance Institutions (MFIs). However, to grow and expand these businesses simultaneously require a mixture of bank/debt finance to provide them with working capital, lease finance and private equity to serve different financing purposes.



Source: IFC, taken from *Two Trillion and Counting: Assessing the credit gap for Micro, Small, and Medium-size Enterprises in the Developing world, 2010*, IFC & McKinsey & Company

Each type of financing is used for different purposes and brings with it important considerations and implications for recipients. For example equity is the most expensive form of capital and it dilutes the ownership share of the entrepreneur, but it can bring with it higher rates of return. For debt, there can be high costs

associated with borrowing at the early stage of investment due to the perceived risks in lending to MSMEs, which has implications for the bottom line of the business.⁴⁶ In the context of the social enterprise ecosystem, the focus is mainly on grants and private equity, as often these small start-up enterprises do not meet the requirements to access debt products from banks.

Social Enterprises as MSMEs

In India, social businesses are officially categorized as Micro, Small and Medium Sized Enterprises (MSMEs). There is no globally applicable definition of MSMEs but in India these are classified into manufacturing enterprises and services enterprises, which are in turn further categorized by the size of the investment ceiling for plant, machinery or equipment.^{47 48}

In India MSMEs are classified into two categories which are in turn further split down by size:

Box 1 Defining Micro, Small and Medium Sized Enterprises (MSMEs) in India		
Classification	Investment ceiling for Plant, Machinery or Equipment	
	Manufacturing Enterprises	Service Enterprises
Micro	Upto \$62,000	Upto \$25,000
Small	Upto \$62,000 - \$1.25 mn	Between \$25,000 - \$0.5mn
Medium	Upto \$1.25 mn - \$2.5 mn	Between \$0.5mn - \$1.25mn

Source: The Indian Ministry of Micro, Small and Medium Sized Enterprises. 2009. The Fourth All-India Census of Small Scale Industries (2006-7).

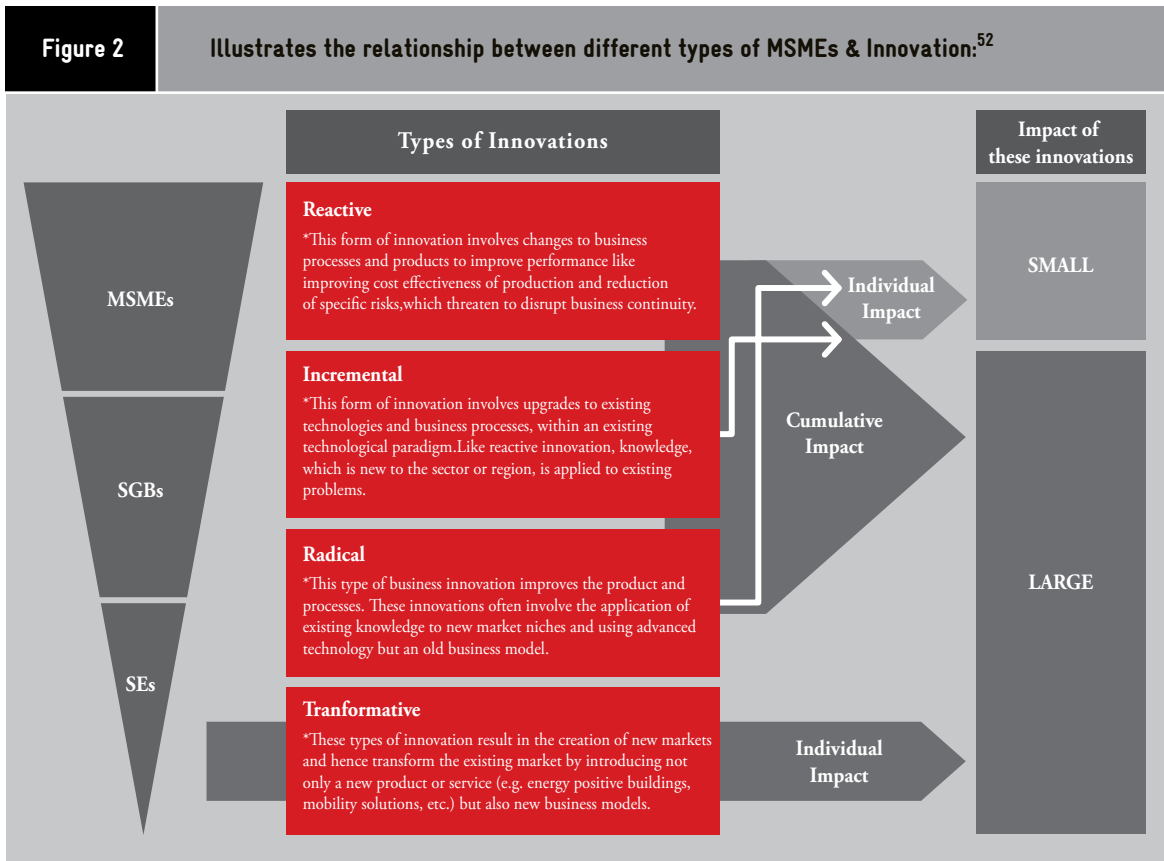
In low income countries, it is estimated that MSMEs contribute to approximately 78% of formal jobs but their contribution to economic growth is less significant, with only a small number of them that have the potential and go on to achieve rapid growth.⁴⁹ These MSMEs are referred to as Small and Growing Businesses (SGBs) by the Aspen Network of Development Entrepreneurs (ANDE).^{50 51} For the purpose of this study social businesses are considered a distinct group within the SGB population. Not only do they have high growth potential but also are anticipated to deliver significant positive social and environmental impacts and returns. (See diagram 2). It is for these dual reasons that social enterprises are considered a subgroup within the MSME and SGB population.

Figure 2: Relationship between different types of MSMEs & Innovation

As with the definition of MSMEs, there is no consensus around the term Social Enterprise.^{53 54} Some in the industry such as the Schwab Foundation consider both not-for-profit and for-profit companies to be within scope.⁵⁵ However, for the purpose of this study social enterprises are defined as for-profit entities, committed to social impact as part of their mission with a focus on delivering products and services in critical-needs sector such as Energy, Healthcare and Education to consumers at the base of the Pyramid (BOP) or improving the productivity, output quality or market linkages for BOP producers.⁵⁶

The Stages of Business Development for a Social Enterprise

The stage of a business’s development often determines the financial and non financial support that it requires. There are different terminologies used in the industry to refer to the growth cycle, or developmental stages of businesses. Intelicap for example use the terminology Pilot, Start-Up, Growth and Steady State.⁵⁷ Other researchers use the following stages; Assessment, Start-Up, Growth, Maturity and Decline.⁵⁸ Figure 3 provides a graphical representation of the stages mentioned.



Social Enterprises and Inclusive Innovation

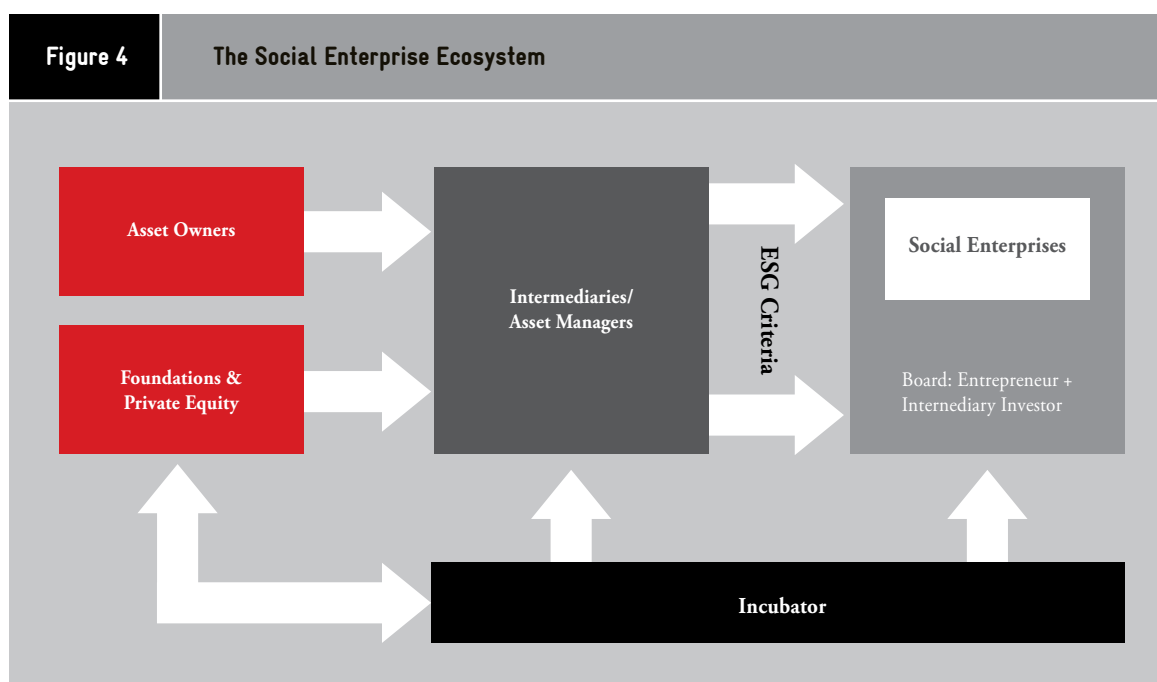
Social enterprises typically incorporate 'inclusive business models'. These business models are defined by the International Finance Corporation (IFC) as those which 'contribute to poverty alleviation' as well as 'expand access to goods, services, and livelihood opportunities for those at the base of the pyramid in commercially viable, scalable ways'.⁵⁹ Consequently social enterprises with their inclusive business models are often associated with transformative innovation as they draw inspiration from emerging sustainability risks and opportunities that will shape the future. This type of innovation is not solely motivated by profit making objectives but the interests of wider societal groups, such as the needs of four billion people living at the bottom of the pyramid who, in absolute terms, often have to pay more for inferior products, a so-called 'BOP penalty'.⁶⁰ It results in the creation of new markets and hence 'transforms' the existing market through introducing not only a new product or service but also a new business model that addresses unmet needs with far-reaching social and economic effects.⁶¹

Transformative innovation is not driven by regulation but instead through voluntary drivers.⁶² It can be assumed that the increasing availability of finance for social enterprises has been and will continue to be a driver for their establishment. Other drivers could also be emerging or latent market opportunities, driven by previously unknown needs, which can result from the changing patterns of supply and demand resulting from broader sustainability trends; and also customer awareness and changing behavior and consumption patterns as a result of the new realities in the transition to a sustainable and green economy.^{63 64}

Both bilateral and international agencies provide assets to impact investors and also play diverse roles in the wider ecosystem. For example, at the multilateral level, the SME Finance Challenge by the G-20 group of nations aims to find and scale up sustainable solutions for financing small enterprises globally.⁶⁵ On the other hand, the IFC Challenge on Inclusive Business Innovation initiates a global search for businesses with innovative, scalable, and commercially viable ways of working with low-income people in developing countries.⁶⁶

The Ecosystem Enablers

Impact investors, social business incubators and donor agencies are all active in the social ecosystem, and operate in the wider regulatory context set by the government and regulator. Figure 4 provides an overview to this ecosystem:



The key stakeholders in the ecosystem are explained below:

Asset owners: This segment provides the capital to businesses (fund managers or companies) to invest. The asset owners want to invest in line with their values and are willing to compromise on financial returns for some form of impact. Asset owners range from foundations, such as the Gates Foundation or Rockefeller, to traditional mainstream private equity funds. Multilaterals, such as the IFC, bilateral agencies, for example DFID, USAID and national governments, like the Indian government are also actors in this field. GIZ, the German bilateral implementing agency funded by the German Ministry of Economic Cooperation and Development (BMZ), provides technical expertise and capacity building, investing in kind, rather than in direct funding. KfW on the other hand provides German financial assistance and invests directly in social impact funds such as Aavishaar.



These governmental stakeholders are playing an increasing role in establishing challenge and innovation funds and in the provision of technical assistance to support these types of investments.⁶⁷

Asset Managers/Intermediaries: These investors ‘provide capital, expecting financial returns, to businesses (fund managers or companies) designed with the intent to generate positive social and/or environmental impact.’⁶⁸ Impact investors are not just traditional private equity funds focused on emerging markets (EMPE funds); and nor are they socially responsible investing in publicly traded securities (SRI).⁶⁹ Therefore they are distinguished from other forms of responsible finance.

As impact investors, these types of investors focus on investing in businesses exhibiting transformative innovation, where an enterprise is creating new markets and changing existing markets by introducing not only a new product or service, but also new and often inclusive business models. These investments provide early stage financing to MSMEs through funds. These funds are structured as either Limited Partnerships or General Partnerships. In Limited Partnerships, there are fixed investments terms for particular time duration. The limited partners oversee the fund’s governance, but are not involved in the day-to-day management and investment decision making. By comparison, general partners follow a pre-determined investment strategy and are responsible for all investment decisions.⁷⁰

Typically these funds have a 2% management fee and take a 20% share of profits in invested companies. In turn, the performance of a fund is measured based on its internal rate of return, (IRR). This can be achieved through leverage; multiple expansion; growth; and efficiency, with the latter two being of the key focus in emerging markets.^{71 72}

Social enterprises have a variety of financial instruments available. These include: grants, debt capital, equity capital, mezzanine capital and hybrid capital. The term sheet of each is set out in Figure 5:

Figure 5	Outline of the term sheets of different financial instruments	
Grants	Term Sheets Duration Annual Payments Repayments	Short term None None
Debts Capital	Term Sheets Duration Annual Payments Repayments	Long Term (3-7 Years) Interest payments (Variable) Yes
Equity Capital	Term Sheets Duration Annual Payments Repayments	Unlimited Dividend payments (Variable) No
Mezzanine Capital	Term Sheets Duration Annual Payments Repayments	Long Term (3-7 years) Interest payments (Variable) Yes
Hybrid Capital	Term Sheets Duration Annual Payments Repayments	Long Term None Depends on structure
<i>Source: Social Investment Manual: An Introduction for Social Entrepreneurs; Schwab Foundation for Social Entrepreneurs and Technical University of Munich, 2011</i>		



Box 2

Impact Investor – Indian Example

Aavishkaar is a Mumbai based investment fund that makes equity investments in enterprises that focus on the lower end of the economic spectrum from a variety of sectors including Agriculture and Dairy, Healthcare, water and sanitation, Technology for Development, Education, and Energy among others. For example it was the founding investor in Vaatsalya a healthcare service provider which offers quality affordable healthcare to the semi-urban and rural population through a chain of semi urban and rural hospitals. Investors in Aavishkaar's funds include, among others, CDC, the UK's Development Finance Institution (DFI) wholly owned by the UK Government's Department for International Development, Deutsche Bank, FMO the entrepreneurial and International development bank of Netherlands, the International Finance Corporation is a private sector arm of the World Bank Group, and KfW Bankengruppe from Germany.

Aavishkaar has the philosophy of unleashing entrepreneurial energy for inclusive growth and its mission is to invest in high impact, scalable enterprises that demonstrate the potential to create a significant positive impact for disadvantaged communities.

Source: <http://www.aavishkaar.in/>

Box 3

Impact Investor – International Example

Acumen Fund is a non-profit venture fund with the mission to create a world beyond poverty by investing in social enterprises, emerging leaders, and breakthrough ideas. The Fund use philanthropic capital to make loan or equity investments, not grants that bring both financial and social returns and it reinvests its financial returns into new investments. It was started with seed capital from the Rockefeller Foundation, Cisco Systems Foundation and three individual philanthropists. As of today, Acumen has \$ 73 million of approved investments in 65 social enterprises in countries like India, Pakistan, Kenya, Tanzania, Uganda, the United States and the United Kingdom.

Acumen encourages interested parties to submit their business plan to the fund and it provides resources online to support applicants with this process. For example it provides a Business Plan template:

http://www.acumenfund.org/uploads/assets/documents/Business%20plan%20table%20of%20contents_LcZCfqa1.pdf

In addition, they sign post applicants to third parties business plan resources:

http://www.acumenfund.org/uploads/assets/documents/Business%20Plan%20resources%202_YQcnCIBZ.pdf

With the broader goal of poverty eradication, Acumen aims to develop leadership through three fellowship programs which are full-time one-year leadership development courses. The Global Fellows Program has candidates from all over the world, while the East-Africa Fellows Program is specific to the East African region, and the Pakistan Fellows Program focuses on one geographic region alone.

Acumen authors and shares online knowledge documents related to the impact investing sector and also provides a platform for self organized, volunteer led groups of people interested in social entrepreneurship through its +Acumen Chapters (<http://plusacumen.org>). There are currently 16 chapters globally including one in Mumbai, India.

Source: <http://www.acumenfund.org/>

Impact investors often accompany their investments with a range of other support services to investees, usually in the form of mentoring in the lead up to the investment or post investment, free of cost to potential or existing investees. It is for this reason, some impact investors overlap in the products and services that are provided by incubators. Nevertheless, it is possible to distinguish them on the basis that the primary role of the impact investor is deploying capital as opposed to capacity building. In addition to other forms of support provided by impact investors, typically post-investment, it sits on the board of the social enterprise in which it has invested.



Private equity investors receive a return on their investment through an initial public offering (IPO), a management buy-back, or the sale of the controlled company to a larger one.⁷³ Figure 6 outlines the common products and services offered by impact investors:

Products		Sub-products	Targeted Business Stage	
			Pre-investment	Post-investment
Equity			✓	✓
Debt				
Grant				
Mezzanine Finance				
Hybrid Capital				
Monitoring			✓	✓
Access to Talent	Fellowship Programs			✓
Capacity Building	Business Plan Development		✓	✓
	Product Development			✓
Facilitation of scaling up			✓	
Network building				✓
Network building			✓	✓

Box 4 **Impact Investor - International Example**

Ennovent is a social venture capital firm based out of Austria with a presence in India, which accelerates innovations aiming at creating substantial impact on the lives of the BOP segment of society. Ennovent has a membership-fee based global online network and directory of investors, entrepreneurs and experts through which it sources its investees. Ennovent also runs an Impact Circle in partnership with TONIC, an international impact investment network. Impact Circle is a network of accredited investors, looking to invest and support high potential entrepreneurs creating a sustainable impact at the BOP in India.

The company also runs specific challenges to identify enterprises for funding that have a specific solution to a challenge. For example, Ennovent, supported by WWF Switzerland launched the “Tropical Forest Challenge” to scout, globally, for for-profit solutions to conserve tropical biodiversity.⁷⁴

Source: <http://www.ennovent.com>

Box 5

Impact Investor - International Example

The Grassroots Business Fund (GBF) is an impact investment firm which offers business advisory services in addition to financial products ranging from equity, mezzanine equity to mezzanine debt and straight debt investments. They invest anything between \$ 500,000 and \$1,500,000, with an average horizon of 5-7 years. With an umbrella focus on BOP services, the fund focuses specifically on agribusiness, artisans and innovations in finance. The GBF is active in Africa (Kenya, Ghana, and Tanzania), Asia (India, Indonesia) and Latin America (Bolivia, Peru).

Source: <http://www.gbfund.org/Our-Portfolio>

Box 6

Impact Investor - International Example

Accion is a global nonprofit based in the USA, that focuses on microfinance. It has recently set up Accion Venture Labs, which provides finance and management support for innovative financial inclusion startups, fostering experimentation and promoting business models that deliver more products and opportunities to more people at the base of the pyramid. For example the types of businesses it provides support for include, mobile phone-based financial services or business models built on m-payment platforms; Specialized credit assessment or delivery models; Online or social media platforms for enabling financial access; Pay as you go solar energy or basic services, collaborative consumption, and other “embedded” financial service models; and other innovations that improve the reach, cost, or quality of financial services to underserved customers.

Source: <http://www.accion.org/page.aspx?pid=4070>

Incubators are involved in the ideas, pilot and the start-up phase of enterprise development. They support entrepreneurs by providing a comprehensive package of resources and services designed to support, facilitate and accelerate the growth of starting businesses. This can include various forms of capacity building, connecting with investors, access to office space, technical assistance and shared business services.⁷⁵ In addition, some do financially invest in the company at the start-up phase. The financial support can be through grants, loans and equity or through staff time, where representatives of the incubator act as consultants to the businesses and recoup their consultancy fee from the enterprise once they reach a particular level of profitability on a ‘success fee model’.⁷⁶

Traditionally the main operational model of business incubators has been a physical incubator. This is where the incubation process and services are offered in a building.⁷⁷ However in today’s technological age, there are increasing numbers of virtual business incubators. The concept is the same, however, a virtual business incubator (VBI) is not bound by a physical building or any other geographical constraint; the services are made available to a dispersed group of users, and hence a VBI is location-independent.⁷⁸ This means that the tools and services provided by the incubator are not only independent of the location of the service provider but also independent of the location of the users of these services.⁷⁹ There are also now mixed incubator operational models where an incubator offers a building to house some entrepreneurs and also supports the generation and development of companies over the Internet.⁸⁰

There is a thin line between what classifies as a social enterprise incubator and a business incubator and this is reflected in the lack of a common understanding of what constitutes a social enterprise. Depending on different philosophical perspectives, interpretations could differ. For example, social business incubators are considered by some, as an incubation model in their own right, as opposed to technology business incubation, technology parks, business incubation with university relationships, associations and networks, agri-business incubation,



Box 7

Business incubation training - International Example

infoDev is a research, capacity building and advisory services program, coordinated and served by an expert Secretariat hosted by the Financial and Private Sector Development Department of the World Bank Group. Repeated instances of a lack of good leadership among incubators, identified by infoDev as a key challenge, led to the formulation of a business incubation training program, targeting business incubator managers and other incubator stakeholders for an in-depth learning of the know-how of business incubation. Over 30 professional experts helped write the 12 training modules, drawing from experience across the globe, and then tested by more than 300 professionals.

Source: <http://www.infodev.org/en/index.html>

Box 8

Virtual business incubation - International Example

iDisc stands for the infoDev Incubator Support Center – and provides free-of-charge, hands-on and practical information for incubators and other business development organizations. It provides organizations with resources such as an Incubation Toolkit for how to start a business incubator including guidelines on the Definition of the Operational Model of the Incubator and also Definition of the Organizational Structure of the Incubator, among others. In addition it provides its members with access to regional networks and communities of practice, monthly newsletters and facilitates regional network events.

iDisc is an outcome of infoDev's Incubator Initiative, an Initiative started in 2002 to support organizations promoting ICT-enabled innovation and entrepreneurship in developing countries. infoDev is a global partnership program within the World Bank Group that assists governments and technology-focused small and medium sized enterprises (SMEs) to grow jobs, improve capacity and skills, increase access to finance and markets, ensure the appropriate enabling policy and regulatory environment for business to flourish, and test out innovative solutions in developing country markets.

For information on the following:

Sources:

iDisc: <http://www.idisc.net/en/Index.html>

iDisc toolkit: <http://www.idisc.net/en/Toolkit.html#>

iDisc printable toolkit: <http://www.idisc.net/en/ToolkitPrint.aspx>

InfoDev: <http://www.infodev.org/>

and mixed portfolio incubation.^{81 82}

For this study, social enterprise incubators are not considered different from any other type of business incubator other than in terms of the criteria applied to select the type of enterprise they incubate.

Incubator Products and Services

Social enterprise incubators typically provide a variety of products and services, the combination of which differ by incubator. The generic products and services that are offered by incubators are listed in Figure 7, with details of the target group and the revenue model options to finance each type of product.

Incubators typically provide **access to infrastructure, such as office space, or lab facilities**. These include facilities such as a desk, internet high-speed internet and phone, copying/printing, conference rooms. Incubators fund this through either grants, or through a user fee. In some cases, the access to infrastructure is provided for free on the basis of a competitive selection. For example, the Government of India's Department of Science and Technology (DST) 65 Technology Business Incubators (TBI's) provides these services to technology focused start ups.⁸³

Figure 7		Product offerings of incubators										
Products	Sub-products	Targeted Group					Revenue Model					
		Business Idea	Proof of Concept	Early Stage	Growth Stage	Other	Member fee	Participant charge	Lump Sum	Result Based	Free	N/A
Infrastructure	Access to office facilities		✓	✓	✓		✓	✓			✓	
	Access to labs	✓	✓	✓	✓		✓	✓			✓	
Access to human capital/manpower	Temporary Management services			✓	✓			✓			✓	
	Operational support services		✓	✓	✓			✓			✓	
Mentoring		✓	✓	✓			✓	✓			✓	
Advisory Services		✓	✓	✓			✓	✓			✓	
Training Programs	Training of Trainers					✓						
	Residential programs	✓	✓	✓	✓			✓		✓	✓	
	Non-residential programs	✓	✓	✓	✓				✓		✓	
Funding	One-off grants	✓	✓	✓	✓				✓	✓		
	Progressive grants	✓	✓	✓	✓				✓	✓		
	Debt			✓	✓				✓	✓		
	Equity			✓	✓				✓	✓		
Awards and Competitions		✓	✓								✓	
Research and Publications		✓	✓	✓	✓		✓				✓	
Events								✓			✓	
Network Access		✓	✓	✓	✓		✓				✓	

Box 9 Products and services offered by incubators - International Example

The Nahdet El-Mahrousa (NM) Senior Incubator of Innovative Social Enterprises is a ten year old incubator based in Egypt, dedicated to mobilizing the youth of Egypt towards social entrepreneurship to tackle Egypt’s social, cultural, environmental and economic challenges. The incubator provides support in the form of various products, through three different stages of business development of a social enterprise:

Level 1: Pilot Stage:

- Access to office facilities
- Access to potential financial support from NM for initial expenses (limited)
- Network (inside NM and outside) - Required training to carry out the pilot

Level 2: Ongoing Project:

- Financial support (or access to fund raising network)
- Links/network with other external entities
- Support from NM full time staff (shared with other projects)

Level 3: Program Sustainability and Spin-Off:

- Knowledge and experience in setting up a new NGO

Source: <http://www.nahdetmasr.org/senior-incubator>



Similarly in India, **IITM's Rural Technology and Business Incubator RTBI in Chennai** is currently housed within the Indian Institute of Technology (IIT) Madras, and provides incubatees with an air-conditioned office space with network access.⁸⁴ Another Indian example is '**The Hub' Bombay**, a social enterprise incubator in Mumbai, India. It provides a collaborative co-working space that engages and connects social entrepreneurs by providing a home for start-up social entrepreneurs in India. The hub offers a physical space by offering work stations, a meeting room, workshop space and other shared facilities including the internet and printers. In addition it provides networking opportunities through the organization of events, informal skills and resource training required to launch and grow a business through workshops, consultancies and talks, as well as helps match up start-ups with investors.⁸⁵

Box 10**Programs offered by incubators - International Example**

The HUB is a global network of independent collaborative work spaces that provide incubation support to businesses. They aim to 'create spaces that inspire, connect and enable people to realize enterprising ideas for sustainable impact.' To date, there are more than 25 HUBs worldwide. Each HUB has a different set of programs on offer, with the shared focus on incubating and accelerating scalable social business models. Some of the programs are as follows:

- HUB Zürich: Summerpreneurship: The Summerpreneurship is a match-making format for social ventures which are looking for entrepreneurial students to join their team over summer instead of doing the traditional internship at a big corporation.
- HUB Johannesburg: Business Clinic: The Hub Johannesburg aims at bridging the gap of skill development for South African entrepreneurs by providing technical skills training twice a month through the Hub Business Clinic.
- HUB Oaxaca: Central de Talentos: The Central de Talentos (a version of a Time Bank) is the Hub's newest program, promoting equality and building community economies through the inclusive exchange of time and talent.

Source: <http://www.the-hub.net/>

Some incubators provide incubatees with **access to human capital/manpower** such as **temporary management services**. Individual managers or teams of managers are deployed by the incubator to work for the incubatee organization for a period of time which could vary from a few months to a year. These services could be free of cost supported by grant funding, or based on a success fee model. Some incubators provide this service as part of a wider bouquet of advisory services, while others may provide this as a fellowship model such as Villgro.

Closely related to the temporary management services, some incubators provide **operational administrative support services**, either for a user fee/membership fee or for free. For example, the Asian Social Enterprise Incubator (ASEI), based in the Philippines, provides comprehensive general administrative services for its clients including accounting and payroll administration.⁸⁶

Mentoring is common service provided by incubators. This takes a number of forms but generally involves an experienced individual providing one-on-one advice and support to a social enterprise. In some instances, this could include a mentor from the incubator organization helping the entrepreneur turn his/her business idea into a viable, profitable business model. But it could also be a third party being introduced as a mentor by the incubator.

Box 11

Programs offered by incubators - Indian Example

Villgro Innovations Foundation based in Chennai, India, runs the Villgro Fellowship Program. This program provides professional to start-up social enterprises full time for a duration of 10 months. Individuals with a minimum of 3 years work experience in the following areas are eligible: Strategic planning, Finance and accounts, Human resources, Sales and marketing, and Design and Operations. The fellows are competitively selected and initially screened on the basis of a detailed Resume, along with a 500 words essay on 'What motivates you to work in the Social Enterprise sector?', a second 500 word essay on 'Describe one of your accomplishments from the personal or professional front which impacted others' along with a personality test and an interview. The selected fellows receive a stipend which covers meals, housing and incidental costs, as well as travel costs to and from Chennai. Individuals are then placed in one of Villgro's portfolio companies.

Source: <http://www.villgro.org/index.php/apply->

Box 12

The Centre for Innovation Incubation and Entrepreneurship (CIIE) Ahmedabad

A collaborative initiative by Indian Institute of Management Ahmedabad (IIM-A), the Gujarat Government and the Department of Science and Technology, Government of India, the Centre for Innovation, Incubation and Entrepreneurship (CIIE) was established in 2007 to support innovation driven entrepreneurship in India through incubation, investment and training. CIIE runs an initiative called MentorEdge.

MentorEdge Network has an active mentor network in each major city which is spearheaded by 'the City Evangelist' graduates from local colleges, who wish to work with CIIE to create the mentor-startup network in their respective cities. In turn, mentors with expertise in different functional areas, are selected for every city by CIIE and the City Evangelists. CIIE runs the Secretariat for MentorEdge and they work with the mentor network to identify start-ups/entrepreneurs for mentoring.

In addition to Mentor Edge, CIIE provides a number of other programs and services:

- ICT incubation: a residential, mentorship-based three-month long program called the iAccelerator
- Cleantech incubation: Other than incubation facilities, CIIE has set-up INFUSE Capital, an early stage fund focused on sustainable energy.
- Healthcare incubation: The Piramal Prize is a joint effort by CIIE and the Piramal Foundation to award healthcare innovation.
- Seed funds: Seed-stage start-up funds dedicated to specific causes like IT, renewable energy and SMEs. In addition, they have also set up a new SEBI-registered venture fund focusing on cleantech, telecom and social business sectors.

Sources: <http://www.ciieindia.org/programmes/> and <http://mentoredge.com/>

Mentoring is often incorporated into other product offerings from an incubator such as residential or non residential training, but it can also be offered as a standalone service to incubatees. For example, Milagrow, based in Gurgaon, runs Venture Doctors, a free diagnosis and mentoring service for Social MSMEs.⁸⁷ Key areas covered include: Corporate Strategy, Business Planning, Organization Design, Human Resource Development, IT Services, Sales & Marketing, Lean Manufacturing, Corporate Law, and Funding Issues.

Some incubators generate revenues by providing **advisory services** to clients. This could be advisory services provided directly to social enterprises, for example, Root Capital from Cambridge, USA, offers financial advisory services to its incubatee organizations.⁸⁸ Another model is where advisory services are provided to other organizations in the wider social enterprise eco-system, for example, Intellectap, based in Hyderabad, India offers strategic advisory services to international development organizations, businesses, and governments that seek to engage with the Base of the Pyramid (BOP) markets.⁸⁹



The capacity building of entrepreneurs and social enterprises is a common product and service provided by incubators. The capacity building takes the form of training programs designed for the entrepreneurs to develop a know-how in critical areas of business planning, including focused mission, writing up a business plan, target market segmentation, business models, distribution, organizational capacity building, metrics, pitching to the investors, financing alternatives among other topics. These training programs can be residential or non residential.

Residential workshops are conducted, with the length ranging from a week to 6 months, where the incubatees receive intensive training on any of the above mentioned topics. Modes of interaction in the program can either be facilitator plus peer to peer learning or facilitator plus business-investor, and can incorporate other services such as mentoring and network development either other social enterprises or with investors. One innovative residential training is conducted by the Unreasonable Institute who run a program called 'Unreasonable at Sea', a 100-day accelerator, conducted on a ship travelling through 14 destinations around the world. This program is tailored for entrepreneurs looking to address social and environmental challenges with technology and gives ten participant companies the chance to test their technology in local economies of the different destination countries.⁹⁰

Box 13**Residential and non-residential programs - International Examples**

Village Capital, an NGO based in the USA, operates residential and non residential incubator programs worldwide through its partnerships, for entrepreneurs seeking a positive impact on the world beyond just financial returns. Its programs focus on peer to peer learning and the select of a winner of a grant for one of the participants based on peer's selection. In the past two years, Village Capital launched ten programs worldwide, supporting over 150 entrepreneurs. Its programs include among others:

- **VilCap/GrowthAfrica: Nairobi 2012** is a program open to individuals running a for-profit commercially-scalable business models, with at least one core team member based in Nairobi working in one of the following verticals: (a) mobile/information technology with a specific focus on base-of-the-pyramid populations; (b) energy/environmental sustainability; (c) affordable basic services for the poor (e.g. health, education). The participants are competitively selected, and after the course will have the opportunity to be one of the two enterprises, selected by peers on the course, that will receive a \$50,000 investment.
- **Village Capital-London.** This program was a twelve-week program for entrepreneurs in the UK based out of the Hub Westminster.
- **Village Capital-Brazil.** Village Capital partnered with a local incubation partner Artemisia for its program in Brazil where ten enterprises met in São Paulo four times in three months to build a strong peer cohort and learn how to invest in one another. This program was also supported by investor partners Vox Capital and Potencia Ventures, and philanthropic partner Halloran Philanthropies.
- **The Unreasonable Institute** based in Boulder, Colorado the USA selects 25 young entrepreneurs from across the globe to attend its 10-week incubation program. The entrepreneurs undergo skill training, gain access to seed capital, obtain legal advice, prototype consulting, and receive mentorship from 60 proven entrepreneurs and investors. Their aim is to enable 25 social ventures a year to address a major global issue in a way that is self-sustaining and scalable to millions of people.

Source: <http://unreasonableinstitute.org/fellows-all/>

Source: <http://www.vilcap.com/>

Box 14

Residential and non-residential programs - Indian Examples

Dasra based in Mumbai, India is a strategic philanthropy foundation working with philanthropists and social entrepreneurs to create large scale social change. It runs the Dasra Social-Impact (DSI) program, in partnership with Village Capital which was founded by First Light Grey Ghost Ventures.

This DSI is an executive education program, which provides successful non profits and social businesses with transformational skills necessary to build sustainable and scalable organizations to accelerate their impact. It focuses on building organizational capacity and not individual capacity. The course fee per participant is INR 4 Lakhs. Successful applicants pay a fee of INR 1 Lakh and are automatically eligible to receive a scholarship of INR 3 lakhs.

Applicants to the program are screened and 50 high impact organizations are selected to take part in the intensive training and development program targeted at CEO's or senior decision-makers of organizations. Typically 50% of these organizations are for profit or hybrid enterprises and 50% are nonprofit. Entrepreneurs commit to 3 residential training in Mumbai; 10 hours per month of homework and mentor time; completion of homework exercises and they have to demonstrate that they will feedback and integrate the learnings back into board and senior management. In turn the incubator provides the 3 weeks of classroom tuition, one-on-one mentorship from Dasra staff, academic and expert tutors; at least one mentor from the professional sector for skills building and sounding board; regular access to expert mentors (HR, governance, legal etc.); and 5-10 hours of online or telephone mentorship per month. At the end of the course participants get an opportunity to take part in the Peer Funding Program where participants are divided into groups and each group votes for a winner based upon the criteria formulated by them. The winners from these groups stand to win funding and graduate onto Dasra's Investment Readiness Program.

In addition, to its DSI and Investment Readiness Programs Dasra provides regular classroom structured courses or online courses for aspiring or early-stage entrepreneurs or investors are offered by the incubator for a membership fee or participant charge.

Source: <http://www.dasra.org/>

Box 15

Residential and non-residential programs - Indian Example

Venture Nursery, a newly established incubator in Mumbai is offering competitively selected incubatees the chance to participate in a BootCamp which lasts for 90 days. They intend to hold these Bootcamp's twice a year. The camps aim to mentor and guide start-ups in several business building basics and refine their proposition, business models and scaling plans, they include office space free of cost, and regular mentoring by Advisors-in-Residence and other experts, through lectures, workshops and one-on-one counseling sessions, among other benefits. In addition, the incubator provides what it calls a ParallelTrack program, which provides similar support to incubates but in a virtual incubation environment.

Source: <http://venturenursery.com/Program-Schedule.html>

Incubators can sometimes offer seed funding in the form of debt, equity or grants to entrepreneurs. **Funding options** can include: **one-off grants** - a lumpsum amount to cover start-up costs; **progressive grants** - which are given at intervals, either as a monthly stipend or upon achieving a milestone; **Debt** - where the incubator gives the entrepreneur a loan; and **Equity** - where in return for money or any other services, the incubator gets shares in the incubatee organization.

For example, the **Indian Angel Network (IAN)** based out of Delhi, India is an equity-based incubator established by the Indian Angel Network, with the support of the National Science & Technology Entrepreneurship Development Board and the Department of Science & Technology of the Government of India. IAN works with entrepreneurs in the process of planning the business, formulating a market strategy



and providing support in getting the business plan operational. The incubator also helps start-ups access seed funding, besides providing mentoring and guidance. IAN looks at investing up to Rs.10 lakh in start-up as well as early stage companies. The incubator organizes workshops to train the entrepreneurs in various aspects of the early stages of business.⁹¹

Box 16**Non residential training program - International Example**

Ogunte, a Social Innovations Development Company focused on women-led social ventures based in London, the UK, runs the Make a Wave Pre-Incubator, which is a Specialist Pre-Incubator Program for Women Social Entrepreneurs. It is a learning and confidence building program that aims to increase a reliable pipeline of deals, for women-led social ventures. The training covers legal structures, documents, public speaking, business model, communication skills, and initiation to loans, equity, and fundraising among other topics.

To apply, participants complete a business diagnostic form that provides an overview of their social venture, achievements to date, prospects and theory of change. If successful at this stage, the entrepreneurs receives mentoring and a micro-loan from a woman business angel. This loan is worth £1000, repayable within 12 months (+6% interest). It is the equivalent of ½ the fees to attend the program. Subsequently business angels select up to 18 entrepreneurs. Each angel expresses a top 3 options of entrepreneurs they would like to loan the money to. An angel can decide to mentor and loan money to one or more candidates. In turn the 18 selected shortlisted set up a profile on Buzzbnk and crowdfund a total of £1000 worth of donations (includes commission from Buzzbnk, the crowdfunding platform) to purchase the other part of the fees. They have up to 60 days to do so. Finally, the 12 first candidates to reach the crowdfunding target can attend the program.

Source: <http://www.ogunte.com/innovation/make-a-wave-pre-incubator>

Box 17**Thematic focus of incubators - International Example**

Root Capital from Cambridge, USA, supports small and growing businesses that strengthen the social and economic position of small-scale farmers. Launched in 2012, Root Capital's Women in Agriculture Initiative aims to enhance its lending products and financial advisory services to provide reliable economic opportunities for women, and to ultimately better understand how women help grow rural prosperity. The initiative focuses on industries that traditionally employ large percentages of women, such as shea nuts and other wild-harvested crops, staple food products and agro-processing, as well as businesses led by women entrepreneurs and managers. Root Capital screens all of its prospective clients for inclusion in the initiative based on the following criteria: Leadership: Are women in positions of leadership in the business? This includes women as managers, board members, and owners; Employment: Are women well represented (at least 30%) as employees in the business or as members of the cooperative?; Gender policy and culture: Does the organization have stated policies or offer social programs that benefit women, for example maternal health or breast cancer screening?

The initiative has committed to finance 200 gender-inclusive businesses, thereby reaching 200,000 female producers by 2016, while building financial management capacity for 100 businesses with strong gender policies, woman leadership and/or sizable female employment or membership. The investors has the long-term goal is to demonstrate the viability of lending to gender inclusive businesses and to spur the development of a financial market that serves these enterprises.

Source: <http://www.rootcapital.org/support-us/women-agriculture-initiative>

Other products often provided by incubators are **awards and competitions** which are open for any social enterprise at varying stages of business development. There are different models for these awards or competitions, ultimately the entrepreneur who wins gets a stipulated amount of money which can either be

given as a one-off grant or used to pay for the services offered by the incubators. One example is CIIE-IIM in Ahmedabad in India which runs the Piramal Prize, a partnership between Piramal Foundation and Centre for Innovation, Incubation, and Entrepreneurship (CIIE) that seeks to enable entrepreneurial ideas with potential to reduce the burden of disease across India. The award recognizes high-impact models that propose innovative solutions which directly or indirectly address India's healthcare crisis.

Another Indian example is a competition initiated by Ashoka Change Makers based in Bangalore, India, which seeks innovative solutions to health, social and environmental challenges facing communities today, and in the future. Up to USD 100,000 in investments is awarded to the top entries.⁹² In addition, Villgro based in Chennai, organizes Wantrapreneur an annual social business plan competition organized as a part of Unconvention, its annual conference addressing the Innovation & Social Entrepreneurship eco-system. The idea of Wantrapreneur is to identify enterprises with market ready solutions in the start-up and early growth categories across agriculture & other sectors.⁹³ As with Villgro's competition, which is incorporated into an event, the Sankalp Forum incorporates an award scheme as part of its annual gathering.

Box 18**Awards & Competitions - International Example**

The Global Social Venture Competition (GSVC) provides aspiring entrepreneurs with mentoring, exposure, and USD 50,000 in prizes to transform their ideas into businesses that will have positive real world impact. Founded by the University of California Berkeley's Haas School of Business, it is now a partnership with a number of other universities around the world. The Global Social Venture Competition occurs over three rounds: an Executive Summary round, Regional Finals, and the Global Finals which take place at the Haas School of Business at UC Berkeley. During each round of the competition, social entrepreneurs present the social, financial, and environmental values of their business, gaining valuable feedback from and exposure to social innovation experts. It requires entrants to submit a business plan.

The GSVC awards prizes to the business plans that show the highest, most integrated financial and social returns (i.e. blended value), as well as an award for Social Impact Assessment (SIA). To qualify for the Competition, a proposed venture must: Plan to be financially sustainable or profitable - whether it is a commercial business or a tax-exempt organization, it must be self-sufficient on its earned revenues; Be scalable - This criterion will be unique for each business plan and scalability will take into account the potential for growth of the business (and how well both the financial and social goals can be scaled); Have a quantifiable social and/or environmental bottom line incorporated into its mission and practices; Furthermore, each entrant team must include a graduate student (current or recent graduate within two years from the date the plan is first submitted) from any masters-level or post-graduate higher education program in any area of study in the world; and the graduate student must be actively involved in the venture (i.e., actively participating in development of the business plan and presentation or actively working on the business).

Source: <http://www.gsvc.org/>

Research and publications Incubators and their alumni may be actively involved in research and have a repository of publications which incubatees can access through membership. For example, **Villgro**, in Chennai India provides research on social enterprise themes. The International Development Research Centre (IDRC) has given a 3 year grant to Villgro to undertake a research project entitled 'Learning from low-income market-driven innovations and social entrepreneurship in India'. The overall objective of the project is to systematize knowledge and learning on innovations and social enterprises that benefit small and marginal farming communities in India. Villgro calls for original proposals to undertake primary research in the areas of social entrepreneurship. The proposals are subject to a rigorous screening process with the help of faculty and practitioners in the social enterprise sector. The shortlisted applicants are placed before a Research Advisory Committee (RAC) constituted by Villgro for final selection and approval.⁹⁴ Other organizations providing research and publications include Dasra and Intellectap.



Often combining elements of other products and service offering many incubators host network building and awareness raising events offering businesses and investors an interactive platform for exchange of information. Elements of other products and services offerings typically incorporated include pre-conference/event residential training for select participants, mentoring and networking support, as well as competitions and awards, for example in the case of the Sankalp Forum in India.

Box 19**Events - Indian Example**

The Sankalp Forum is held in Mumbai, India, annually. It is an initiative by Intellectap, an advisory firm that works in underserved markets. Sankalp is a conference that provides an enabling platform that supports socially relevant small and medium enterprises. In addition to plenary and panel discussions on relevant themes, the event includes a Mentoring Pit-stop which is one-on-one mentoring from sector experts, as well as the opportunity for participants to book a spot at an investor- entrepreneur clinic, which provides businesses advice on how to pitch to investors for funding. The Forum runs SankalpConnect an online platform to assist participants connect with each other to schedule networking time at the event.

At the event, the forum hosts the Sankalp Awards also showcase the best Social Enterprises across 5 High Impact Sectors: Agriculture, Food and Rural Business; Clean Energy/Technology; Education and Vocational Training; Healthcare, Water and Sanitation; and Technology for Development. Applicants for the awards go through two jury screening processes to select 30 finalists. These finalists get to attend a 2 day residential 'bootcamp' where they receive one to one training with experts and peer to peer learning with fellow entrepreneurs, as well as participate in a 2 month mentorship program. Following this they present their business model to a panel of investors who then select 5 sector winners, 1 regional winner and 1 grand prize winner.

Source: <http://sankalpforum.com/>

Finally, incubators do not just simply provide capacity building support but also **access to networks** for enterprises which can connect them with not just peers but also investor networks. These impact investment networks benefit participating investors by cutting down their due diligence costs of potential investees but also provide a benefit to enterprises in being able to access a variety of investors. In India, there are several such networks. There is the Intellectap Impact Investment Network (I3N) launched in September 2011. This angel investment network aims to facilitate a deal pipeline of enterprises looking for investments up to USD 1 million. I3N currently has on board over 20 high net-worth individual and institutional members.⁹⁵ In addition, there is Ennovent's Impact Circle India, as previously highlighted in box 4.

Box 20**Online training - International Example**

The GSBI Online, a training program for poverty-eradication driven social entrepreneurs, is a new joint initiative by the World Bank Development Marketplace and Santa Clara University's Centre for Science, Technology, and Society, to replicate their successful in-residence program Global Social Benefit Incubator into an online format. The program will provide the entrepreneurs with mentors and interactive training, to take them through nine modules including strategy, value chain creation, business model, budget, impact measurement and financing, among others. The virtual nature of the program allows for a wider reach, and other benefits like lower cost, no travel, greater scheduling flexibility, and customizable curriculum. The 8-week pilot program features 25 grantees identified by the Development Marketplace and GSBI, at the end of which the participants will have produced elevator pitches, business plan summary presentations, and investment profiles necessary to attract business and financial partners.

Source: <http://wbi.worldbank.org/wbi/news/2012/02/24/gsbi-online-new-program-social-entrepreneurs>

Footnotes



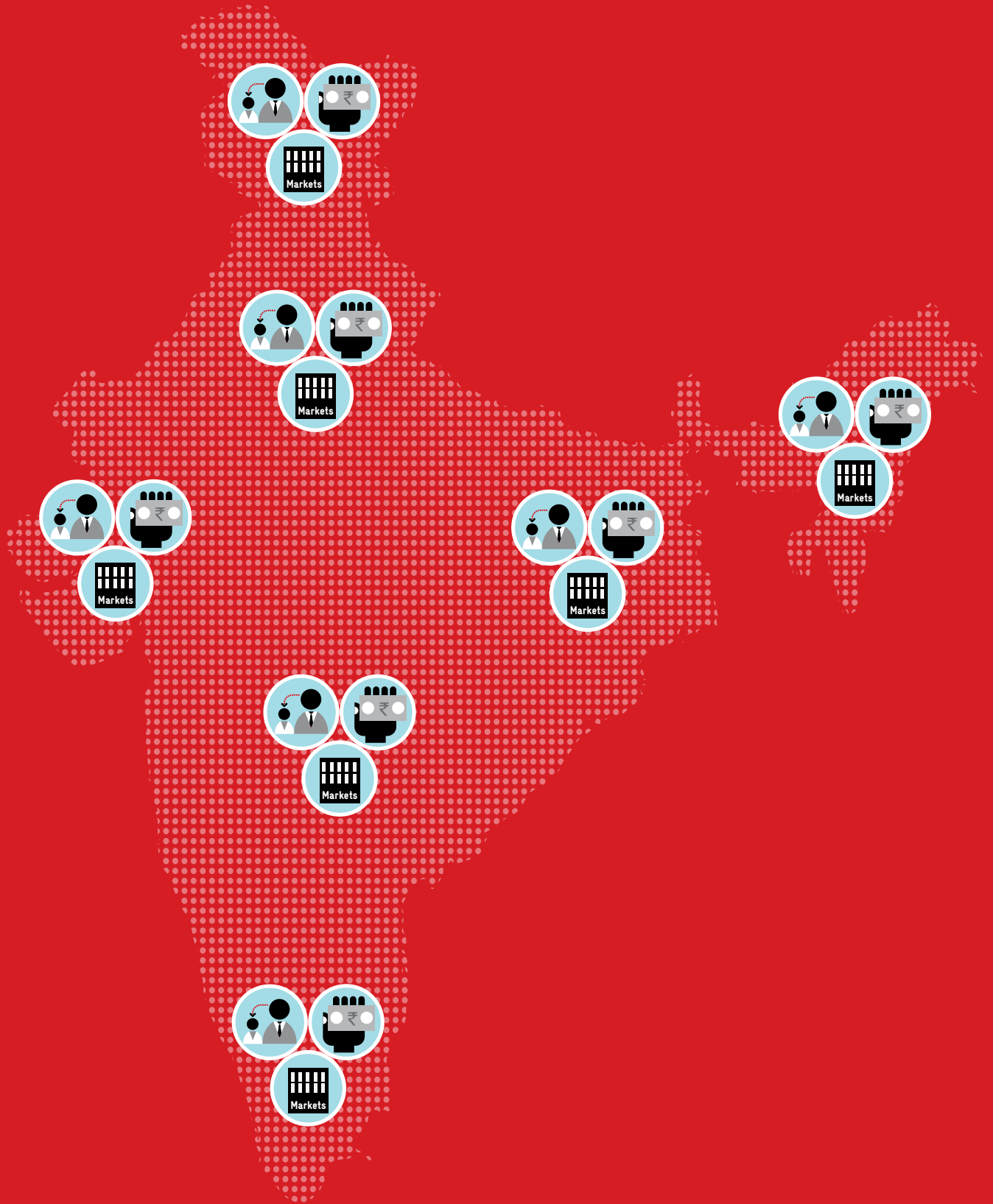
- 13 For example, the G20 has established the G20 Challenge on Inclusive Business Innovation which is 'a global search for businesses with innovative, scalable, and commercially viable ways of working with low-income people in developing countries'. In another example, the IFC is now offering advisory services on inclusive business models to expand access to goods, services and livelihood opportunities for those at the base of the global economic pyramid (BOP) in commercially viable, scalable ways.
- 14 GOI, Office of Adviser to the Prime Minister Public Information, Infrastructure and Innovations, 2011
- 15 GOI, NIC, 2011
- 16 GOI, The Planning Commission, 2011 a)
- 17 Government of India, The Planning Commission, 2011 a)
- 18 GOI, Office of Adviser to the Prime Minister Public Information, Infrastructure and Innovations, 2011
- 19 GOI, The Planning Commission, 2011 b)
- 20 GOI, NIC, 2011
- 21 Government of India, The Planning Commission, 2011 a)
- 22 1 Crore = 1,00,00,000 which is also commonly referred to as 100 lakhs in India
- 23 GOI, NIC, 2011
- 24 GOI, NIC, 2011
- 25 GOI, The Planning Commission, 2011 a)
- 26 GOI, NIC, 2011
- 27 GOI, NIC, 2011
- 28 GOI, The Planning Commission, 2011 a)
- 29 The portal is online at: <http://innovation.gov.in/innovation/fetchAllHomeItems.action>
- 30 <http://innovation.gov.in/innovation/fetchAllHomeItems.action>
- 31 GOI, The Planning Commission, 2011 a)
- 32 GOI, NIC, 2011
- 33 GOI, NIC, 2011
- 34 GOI, NIC, 2011
- 35 Unserved: Do not have a loan and applied or needed loan;
- 36 Underserved: Have a loan but access to finance is a constraint.
- 37 IFC, Mckinsey & Company 2010
- 38 IFC, Intellectap 2012
- 39 IFC, Mckinsey & Company 2010
- 40 IFC, 2010
- 41 <http://pib.nic.in/newsite/erelease.aspx?relid=81107>
- 42 <http://www.sidbi.in/growth.asp>
- 43 GPFI, 2011
- 44 G20, 2010
- 45 RBI, 2012
- 46 IFC, 2010
- 47 MoMSME 2009
- 48 In the Fourth All India Census of Micro, Small and Medium Sized Enterprises (MSMEs) it was found there were 26.1 million MSMEs operating in India (with only approximately 1.5 million registered and the rest unregistered operating informally).
- 49 ANDE Literature Review, 2012
- 50 ANDE Research Initiative, 2011
- 51 "Small and Growing Businesses (SGBs) are defined as growth-oriented firms employing between 5 and 250 people, and seeking between \$20,000 and \$2 million in investment capital. These are small firms with the potential to grow and generate economic development and job creation, but face constraints to human capital, access to finance, access to markets, and other barriers."
- 52 This diagram has been constructed by Ernst & Young, based partially on their desk research, drawing inspiration from CII's publication "Sustainable & Inclusive Innovation: Strategies for tomorrow's world"
- 53 Acumen Fund, 2011
- 54 JP Morgan, GIIN, 2011
- 55 Schwab Foundation
- 56 Intellectap, 2012
- 57 Intellectap, 2012
- 58 Scott and Bruce, 1987
- 59 IFC, 2011
- 60 IFC, 2011 (2)
- 61 Mulgan, Tucker, Ali and Sanders
- 62 CII, 2011
- 63 GIZ, 2011
- 64 CII-ITC CESD, 2010
- 65 www.g20.org
- 66 <http://www.g20challenge.com/>
- 67 IFC, 2011 (2)
- 68 JP Morgan, GIIN, 2010
- 69 Harvard Kennedy School, IFC, World Bank 2010
- 70 IFC, 2010
- 71 For a definition of leverage check out: [http://en.wikipedia.org/wiki/Leverage_\(finance\)](http://en.wikipedia.org/wiki/Leverage_(finance))
- 72 IFC, 2010
- 73 IFC, 2010
- 74 <http://blog.ennovent.com/2012/05/wwf-switzerland-launches-tropical-forest-challenge/>
- 75 www.nbia.org



Footnotes



- 76 Triodos Facet, 2012
77 <http://www.idisc.net/en/Article.52.html>
78 Triodos Facet, 2012
79 Triodos Facet, 2012
80 <http://www.idisc.net/en/Article.52.html>
81 <http://www.idisc.net/en/Page.MEIA.Incubator.Models.html>
82 <http://www.idisc.net/en/Article.38689.html>
83 <http://www.nstedb.com/institutional/tbi-center.htm>
84 <http://www.rubi.in/>
85 <http://www.facebook.com/BombayConnect>
86 <http://www.asei.com.ph/>
87 <http://milagrow.in/>
88 www.rootcapital.org
89 <http://intellecap.com/services/business-consulting>
90 <http://unreasonableatsea.com/>
91 <http://www.indianangelnetwork.com/band-looking-for.aspx>
92 <http://www.changemakers.com/competitions>
93 <http://unconvention.co.in/wantrapreneur>
94 <http://www.villgro.org/index.php/knowledge-mgmt>
95 <http://intellecap.com/>



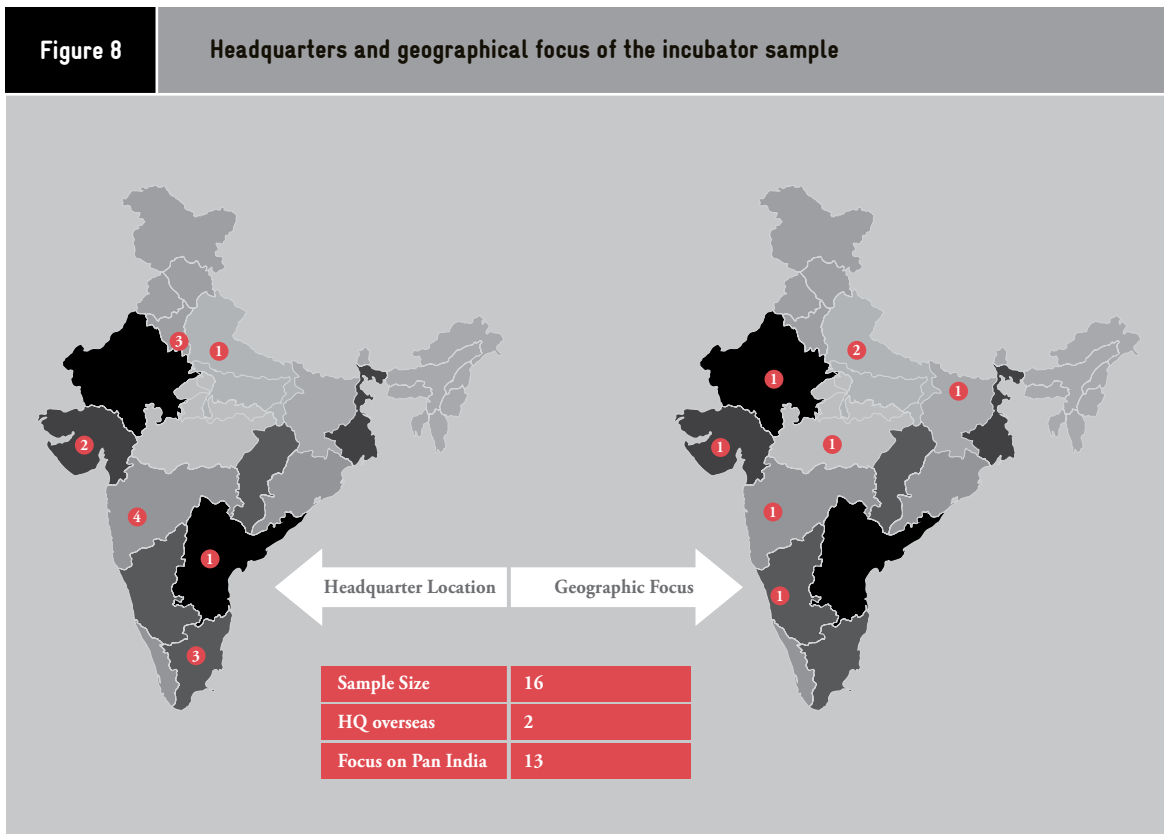


3 The Incubator Landscape in India

Social enterprise incubators play an important role in the promotion of social enterprises, equipping them with the skills, knowledge, networks and finance to turn their idea into a reality. In a bid to understand which organizations are active in the social enterprise space in India, a combination of desk research and a survey of a sample of 16 social enterprises incubators in India was undertaken, and this chapter sets out the results of the findings.⁹⁶

8 out of the sample of 16 incubators (50%) responded to the online survey.⁹⁷ The desk research is based on publicly available information on the incubators' websites and public reports from all 16 incubators in the sample.

Geographic profile of incubators

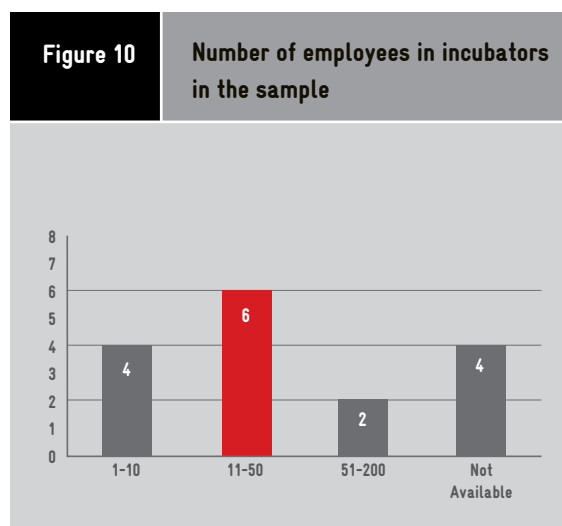
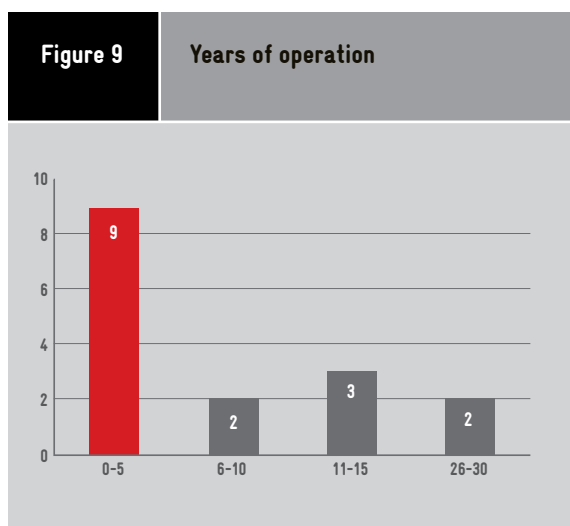


Both the desk research, supported by the survey findings, indicate that within the sample there is a lack of representation in terms of social enterprise incubators headquartered in the East of India. The largest cluster of incubators within the study sample is in Maharashtra with 4 incubators, and second largest in Delhi and Tamil Nadu with 3 each.

12 out of the 16 incubators (75%) claim to have a pan-India focus, according to the desk research and all of the survey respondents claim to be at least pan-India, if not international and pan-India. 50% of the survey respondents said they were active internationally. With the publicly available information it is not possible to compare the stated focus of incubation versus the actual geographical locations of those incubated, however, further analysis may indicate that although most incubators claim to focus across India, their geographic spread may be restricted to the States typically around their headquarter locations.

Age, size and type of incubators

The incubator market in India is still in its nascent stage, with 56% of the incubator sample being early stage companies (between 0 to 5 years), according to the desk research.



The desk research shows that incubators are mostly MSMEs with ten of the incubators operating with fifty or less employees. Within the sample there are two kinds of entities incubators register themselves as – Limited Liability Company (LLC) and not-for-profit (Section 25(c)) with almost 70% of the sample registered as not-for-profits.

Incubator Products and Services

Mentoring and access to networks are the most common product offerings by the incubators in the sample, with almost 70% offering at least one of the products, as suggested by the desk research. It is seen there are limited residential training programs offered by the social enterprises in the sample, and currently, the organizations that do offer this product are based in Mumbai. This limits the reach of the product, with majority of the participants being assumedly from in and around Maharashtra. The survey responses indicate that most of incubators offer their products for fee or on a participant charge basis, however mentoring is almost always free.



Figure 11 Outlining the number of incubators offering each product/service

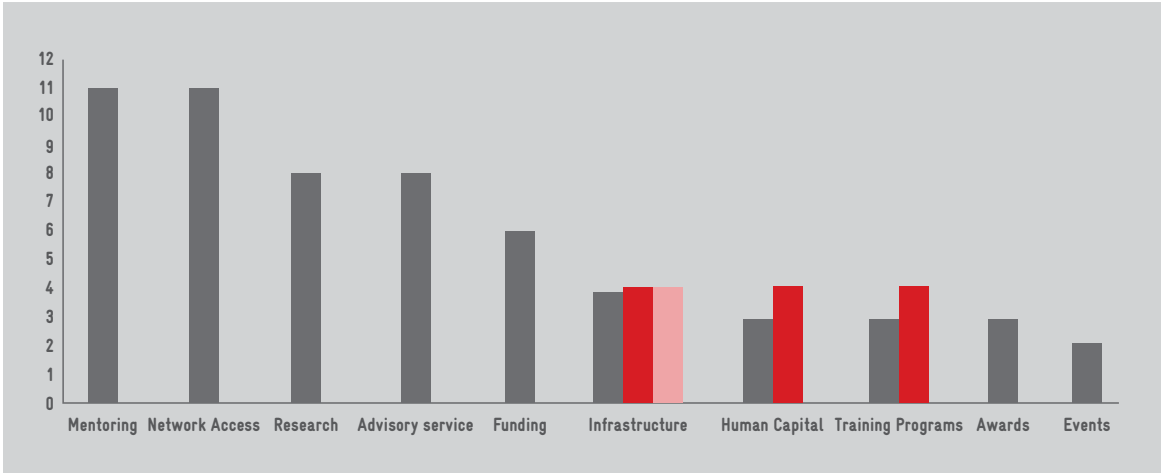
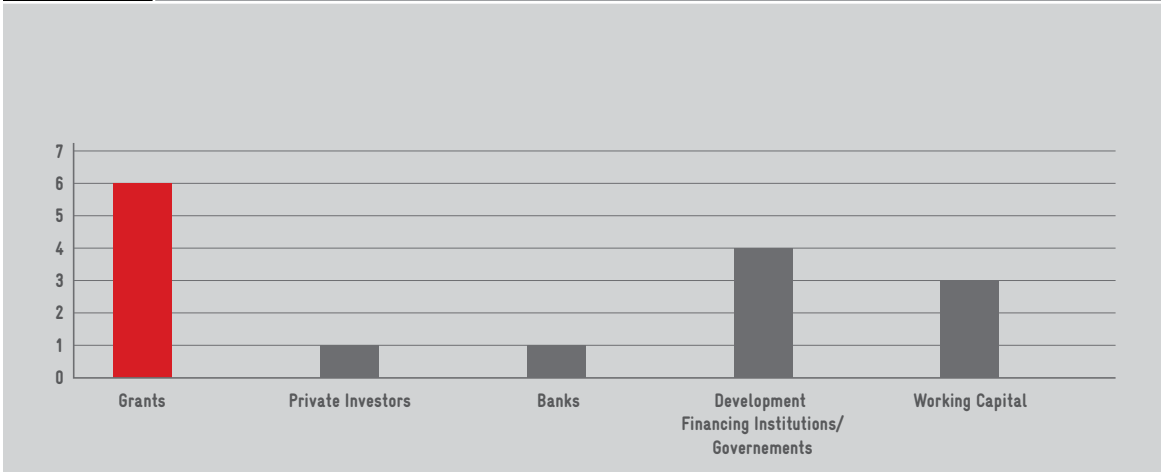


Figure 12 Outlining sources of Incubator funding



Grants are the most important source of capital for funding among incubators, with 75% of the online survey respondents dependent on them. Grants are usually sourced either from corporate foundations or charitable trusts. The Shell Foundation and the Rockefeller Foundation are active donors in this space. The Government of India too, specifically the Department of Science and Technology, donates to some of these incubators such as Villgro and TREC-STEP. In addition to grants, incubators generate additional revenue from fee-based services. Nevertheless this dependency on grant funding for incubators suggests that they are not a viable business proposition without such support.

Sector focus of incubators

The analysis of the survey results suggests health, energy, water and sanitation and technology are the sectors that are focused on by the majority of incubators in the sample. Analysis of the entire incubator sample shows technology as a clear winner in terms of sector focus.

Figure 13

Outlining the sector focus of both the entire sample and specifically the survey respondents

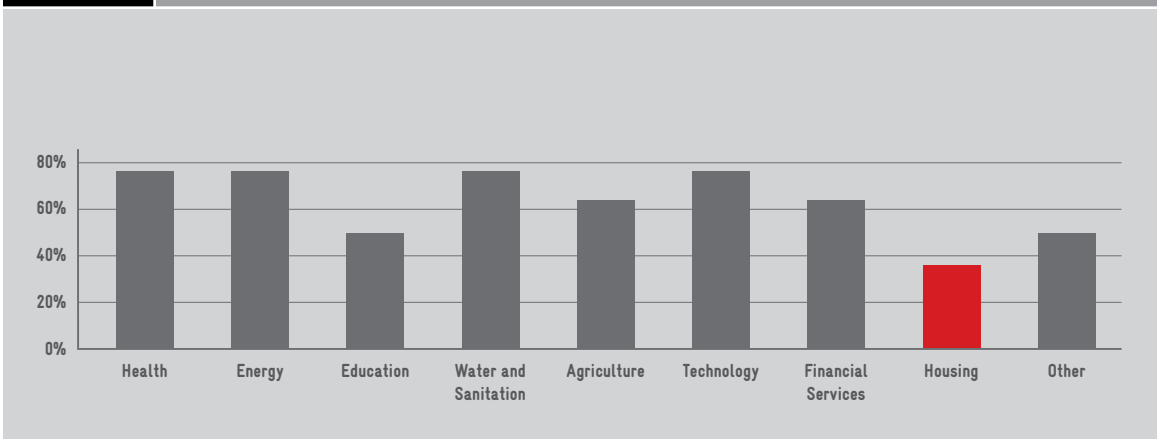
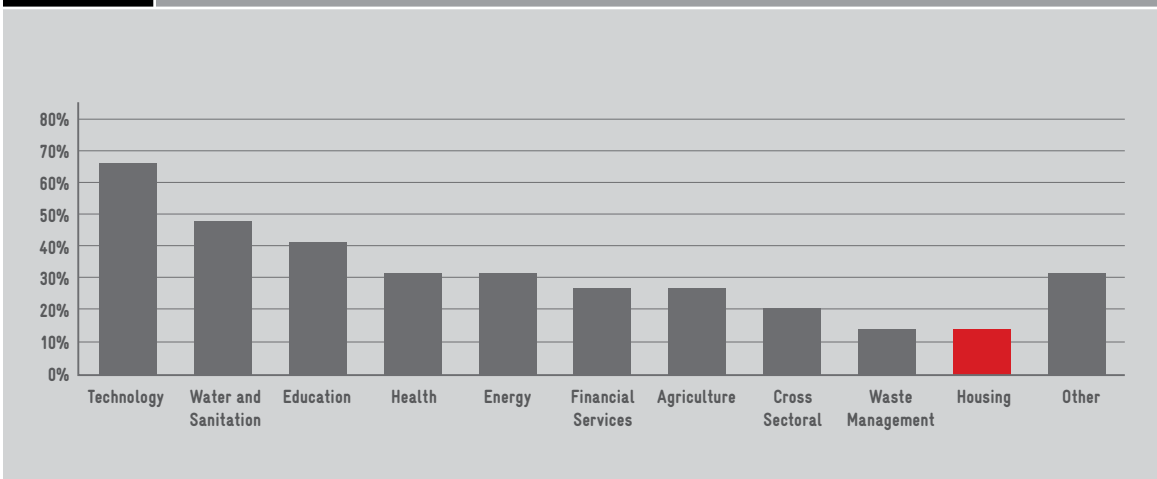


Figure 13

Outlining the sector focus of both the entire sample and specifically the survey respondents

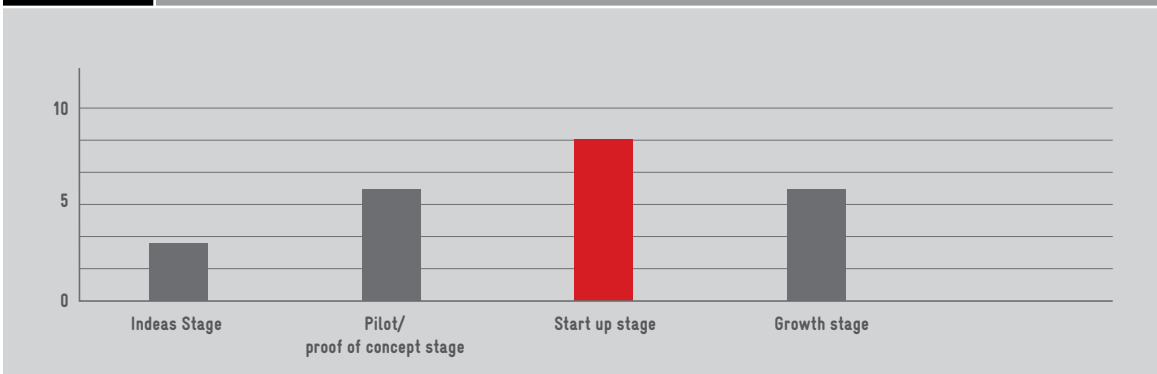


Both the desk research and the survey point to housing waste management, financial services and agriculture receive less attention from incubators.

Incubator Customer Base & Sourcing

Figure 14

Outlining target stage of business for incubator services and sourcing incubatees





Start-up stage business are the most targeted customer base for incubator services, with all 8 survey respondents active in this stage of business development. There is a comparative lack of a focus on 'ideas stage' businesses. Incubators typically use referrals and the media to source customers. The referrals are usually between incubators and other incubators or impact investors. Other methods of sourcing incubatees include direct applications, walk-ins, patent search, business plan competition, and web searches.

Transparency and disclosure

Both the desk research and survey results point to a general lack of disclosure and transparency among incubators regarding the number of incubatees and the impact of their activities. Desk research shows only 5 out of the 16 studied in the incubator sample disclose the number of incubations. A similar trend is seen in the survey results where only 3 out of the 8 respondents disclosed the number of incubations they have made so far. 7 out of the 8 respondents (87.5%) of the survey claim to measure their social and environmental impact, out of which 4 use internally developed tools. However, only 50% of the respondents (4 organizations) publish a report on their impact. Out of those who report, only 2 organizations use a standardized framework. 3 out of the 4 reporting organizations take the help of external agencies for reporting. Hence, there is a clear lack of comparable disclosed performance data from the incubators.

Partnerships

4 out of the 8 survey respondents (50%) have partnerships with other incubators and these relationships are mostly non-financial in nature, with scouting partner being the most common kind of partnership, for example Villgro and RTBI – IIT Chennai are scouting partners.

Incubator-investor partnerships are usually for mutual pipeline building. For example, a competition organized by an incubator may have an impact investor on the jury panel, who commits to investing in the winner organization, before the competition is conducted. This financial commitment, along with the incubator service offerings, draws social enterprises to participate. From the results in the online survey, it does not look like a very popular or common occurrence, (only one out of the eight respondents has partnerships with investors), but that may be because of the small sample size rather than an apt reflection of the market. Also, many of these partnerships are informal.⁹⁸

4 out of the 8 survey respondents (50%) have partnerships with other organizations most of which are of educational/research institutes. For example, the National Innovation Foundation and the Council for Scientific and Industrial Research are partner organizations.

Incubators are typically also members of larger networks such as ANDE⁹⁹ and GIIN,¹⁰⁰ with 4 out of the 8 survey respondents registered in formal networks, among which, 2 are listed in ANDE.

Conclusion

To conclude, social business incubators are a niche category of incubator in the market and are characteristically small not-for-profit, grant-funded organizations, with a concentration in the metros. While there is a wide range of services offered by incubators, there is further scope to increase the amount and geographic penetration of these services, specifically business plan competitions and access to infrastructure. There is also a general lack of transparency and disclosure, which if addressed, will help both internal and external assessment of the organizations impact by existing or potential funders.

Box 21

Networks - International examples

A. ANDE

The Aspen Network of Development Entrepreneurs (ANDE) is a global network of 140+ organizations, to encourage entrepreneurship in the developing world. To propel this cause, ANDE has two programs, other than regular events and publications:

- i) Aspen Global Leadership Network (AGLN) which is a network of successful entrepreneurs across the world, focusing on addressing societal challenges. Currently, they have over 1500 members from 45 different countries).
- ii) The Aspen Institute Business and Society Program First Movers Fellowship which is an innovation lab for individuals devising strategies to create profitable business growth and positive social change.

Source: <http://www.aspeninstitute.org/>

B. GIIN

The Global Impact Investing Network (GIIN) is a not-for-profit organization aiming at scaling impact investing and its effectiveness. They have an extensive resource library, filing research done by themselves as well as other organizations on impact investing. They also have a monthly program called the Investors' Spotlight, in which an investor discusses their impact investing strategy and challenges with GIIN.

Perhaps the most important contribution of GIIN is the Impact Reporting and Investment Standards (IRIS). In this project, the GIIN is continuing what has been initiated by The Rockefeller Foundation, Acumen Fund, and B Lab to develop and promote a common framework for reporting the performance of impact investments, to address the lack of transparency and disclosure in the impact investment market.

Source: <http://www.thegiin.org/>



Footnotes



- 96 Refer to annex for list of the full sample.
- 97 Refer to annex for list of survey respondents
- 98 Stakeholder consultations
- 99 <http://www.aspeninstitute.org/>
- 100 <http://www.theiim.org/cgi-bin/iowa/home/index.html>



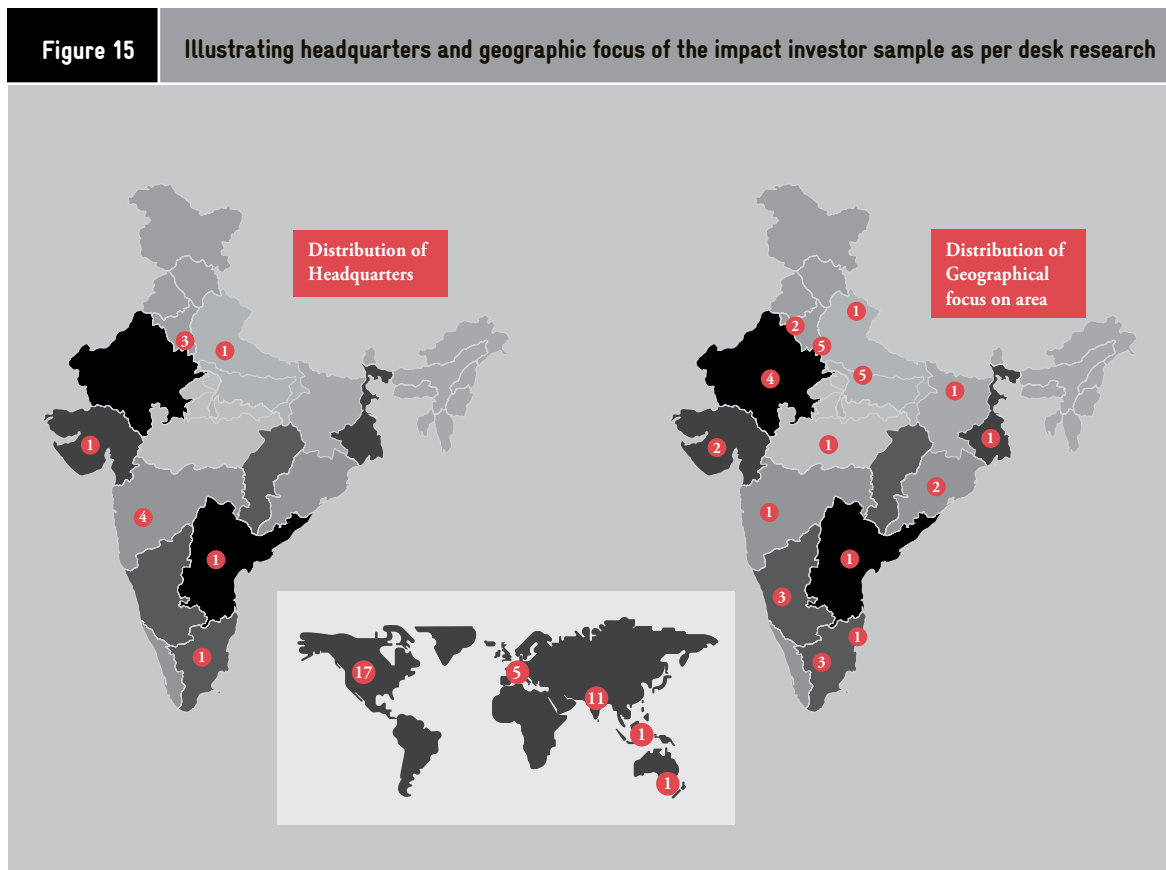


4 The Impact Investor Landscape in India

The new asset class of impact investors in India is the forerunner in the promotion of social business, introducing the idea of patient capital or blended capital. In a bid to understand this class of players better, a sample of 33 organizations (see Annex) were identified, and a combination of desk research and survey questionnaire responses was undertaken, the results of which are detailed in this chapter.

11 out of the sample of 33 incubators (33%) completed the online survey and so the online survey findings indicated below are based on these 11 respondents' inputs.¹⁰¹ The desk research is based on publicly available information on the investors' websites and public reports of all the 33 incubators in the sample.

Geographic profile of investors and investments



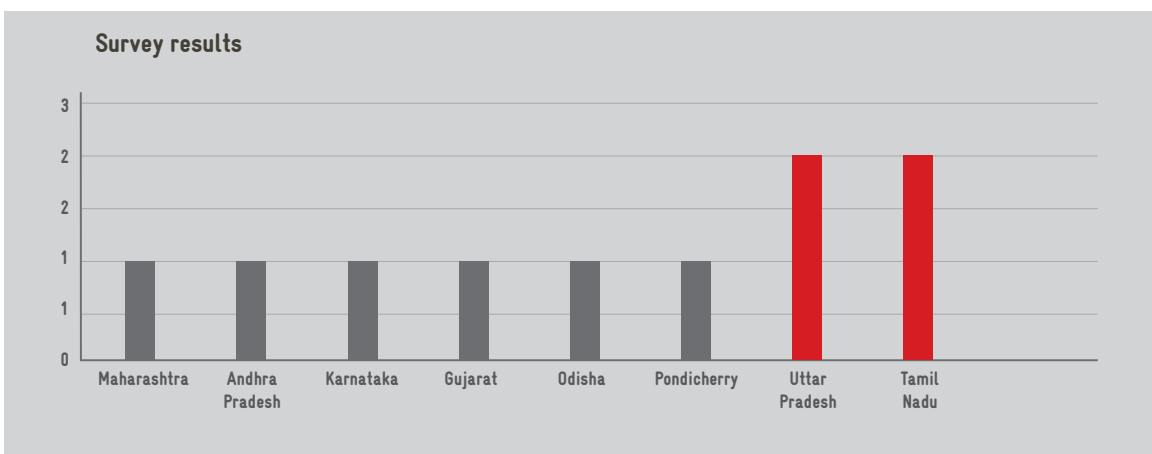
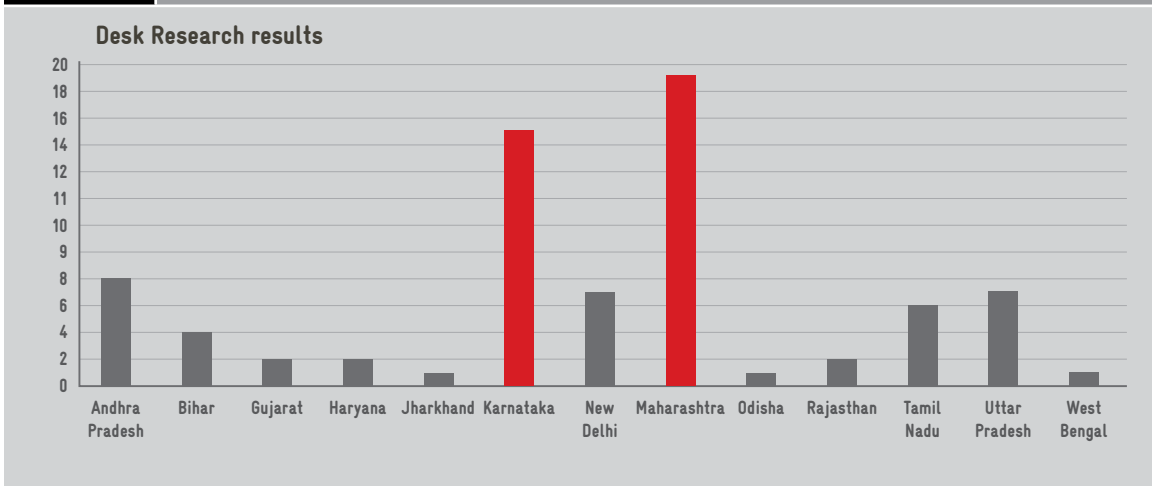
Most of the impact investors targeting India are headquartered outside the country, with more than 50% of the sample headquartered in the USA with the remainder of other foreign investors being headquartered in primarily in Europe but also South East Asia and Australia. The skewed distribution of headquarters outside India highlights that a large proportion of impact investing in India is financed by American investors. For those

investors headquartered in India, they are typically based in the North (Delhi) and the West (Mumbai), with Central and East India clearly not a preferred base.

Maharashtra, Delhi, UP & Rajasthan are the geographical focus areas of investors in the sample with the Eastern and Central states receiving less investor attention.

Figure 16

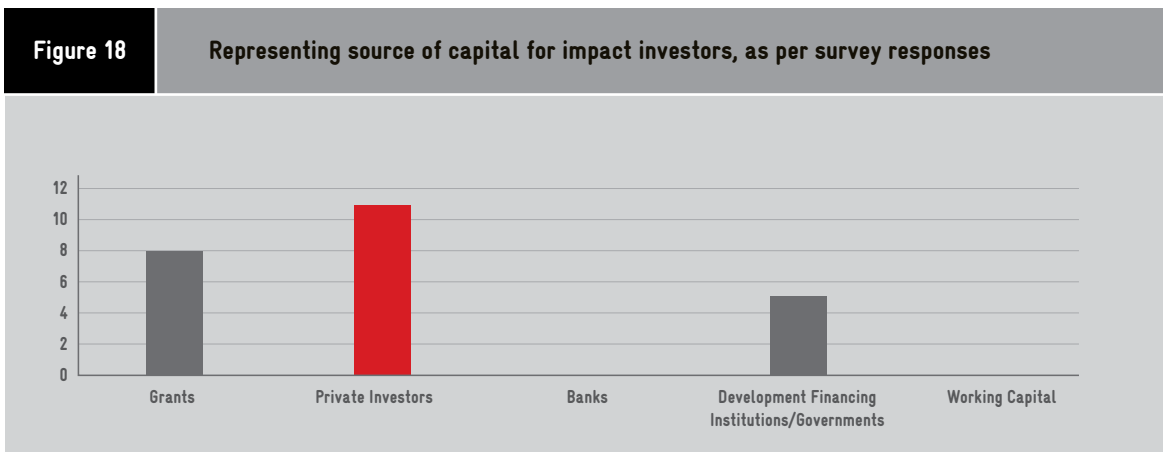
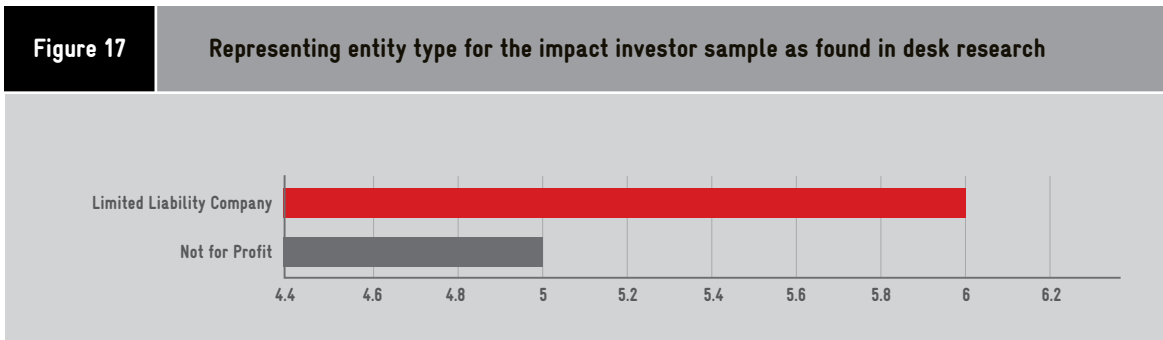
Showing state-wise recipients of investments as indicated in the desk research as well as survey responses



Desk research highlights Karnataka and Maharashtra as the highest recipients of impact investments based on publicly available information from the sample. From the sub sample who responded to the survey, Tamil Nadu has received the highest amount of investments, with Uttar Pradesh a close second. Lower income states such as Bihar, Orissa, Tripura & West Bengal among others have received no or negligible impact investments.

Organization profile

Impact investors are typically registered as LLCs according to research supported by the survey results. Out of a sample of 33 investors, 20 were registered as LLC's and 14 were registered as non for profits. This divide in registration type may indicate the difference in investment philosophy of investors and may also be indicative of the source of capital for investments.



70% of impact investors who responded to the survey stated their source of capital was from private investors. Nevertheless other sources of capital included grants and developmental or government financing. A notable correlation is drawn between entity type and the source of finance used to capitalize investors where LLC's attract private investors and not for profits attract grants.

Figure 19 Showing company size and age of investors

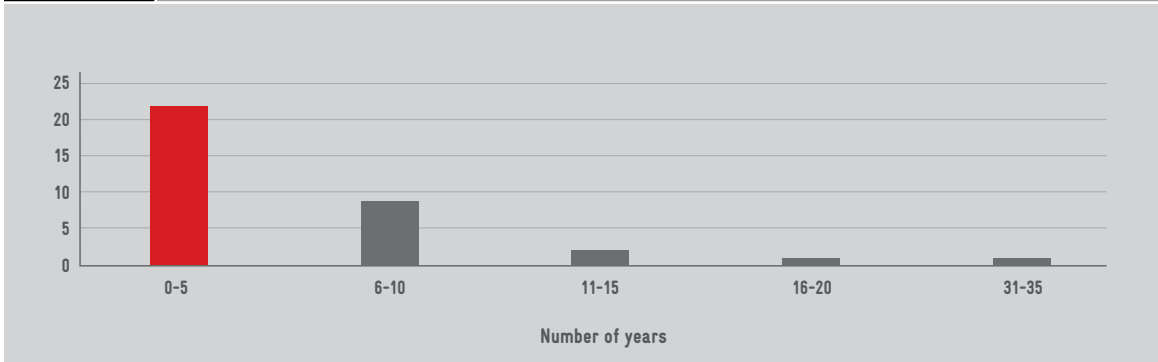
Company size and age of investors		
Employees	Impact Investors	Percentage
1-10	21	58.3%
11-50	12	33.3%
51-200	2	5.5%
201-500	1	2.7%

Desk research shows most impact investors are small organizations employing between 1- 10 people. The survey narrows the window down to around 4 – 5 employees in a firm.

Almost 70% of the sample is still within the first 5 years of operations, according to the desk research supported by the survey analysis. This reflects that impact investments are a relatively new asset class.

Figure 20

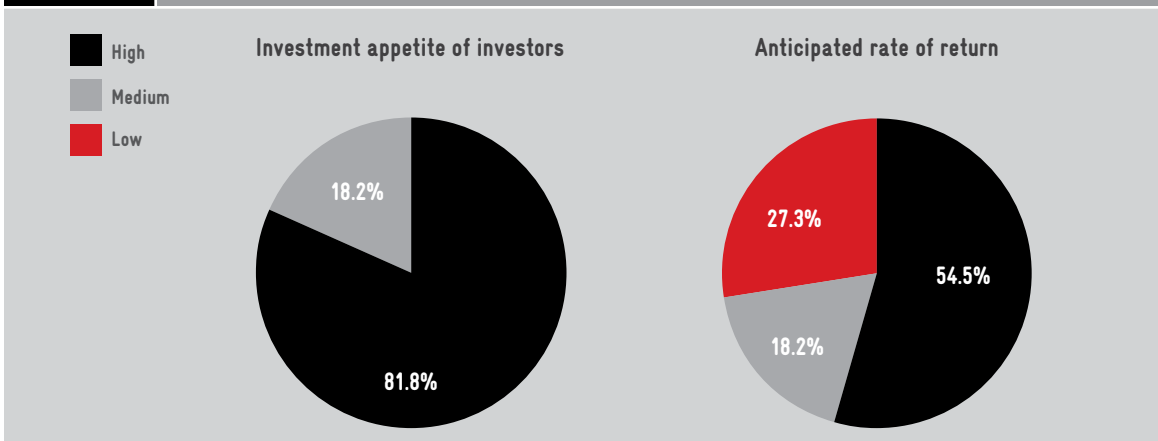
Years of operation of the impact investor sample, as per desk research



Investment Focus

Figure 21

Sector focus of impact investors, on the basis of survey responses



Health, energy and education are the key areas of focus for impact investors, with health, the leading focus, with 9 out of the 11 survey respondents (around 80%) claiming to be active in the health sector. Housing & Financial Services are the least focused areas, with only 4 respondents stating a focus on these themes. Survey results, backed by desk research show 90% of the impact investors typically focus on more than 2 business sectors.

Customer base and sourcing

According to the survey, impact Investors indicate they source their investees in the following ways:

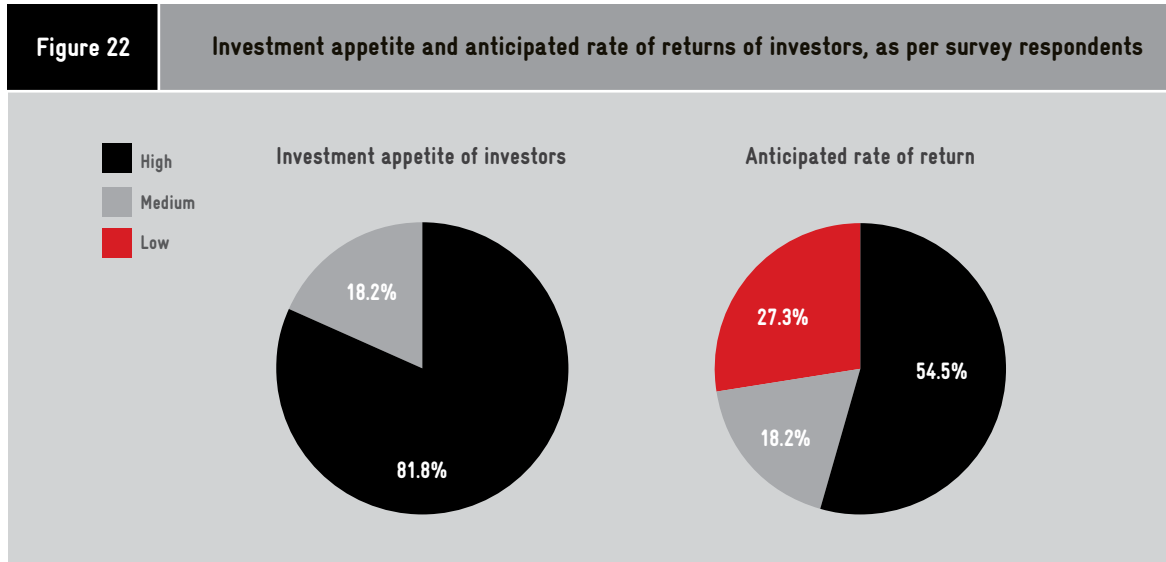
- Visiting impoverished communities to identify high potential small businesses
- Grassroots networking
- Application on websites
- Participation in industry events
- Direct Approaches
- References

Investment appetite, rate of return and patience

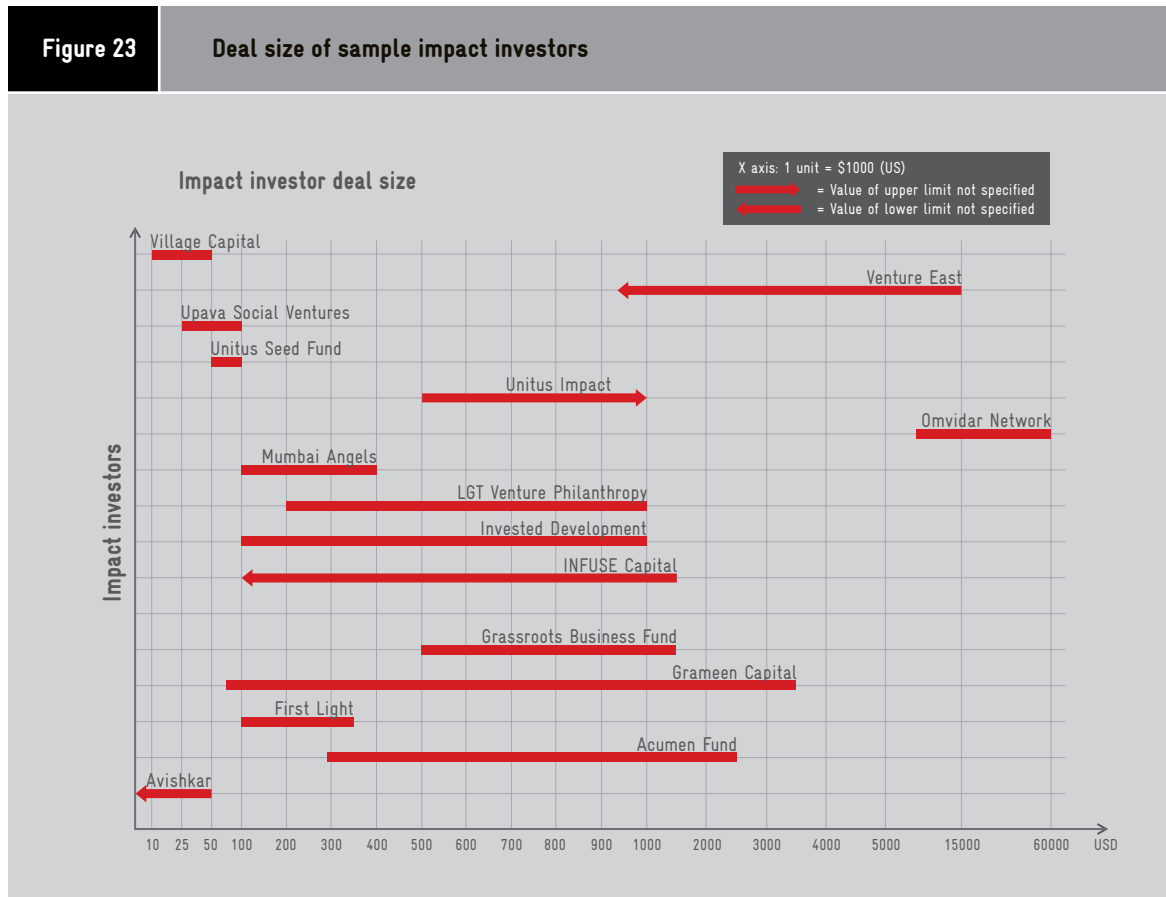
Research indicates a high investment appetite among impact investors with 81.8% of the surveyed investors noting a 'high' investment appetite highlighting the buoyancy and investor confidence in this segment. No investor reported 'low' investor confidence.



More than 80% of the investees expect a high to medium rate of return. These figures highlight the perceived potential of this segment as not a single organization reported a low level of patience for financial returns. Almost all investors are in this sector for the long term as no investor reported a low level of patience. The analysis can then conclude that impact investors that responded to the survey claim to operate in the high-risk, high-returns, high-patience segment.



Deal size of impact investors

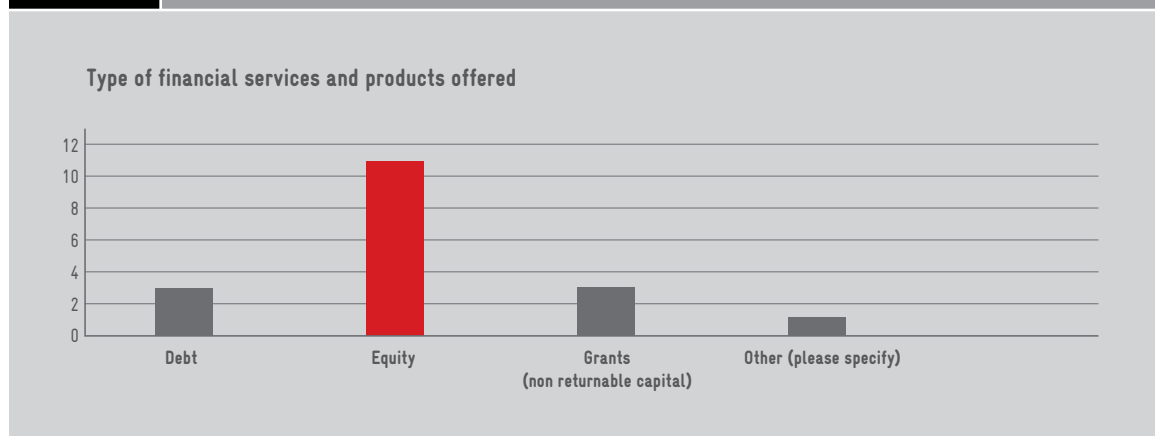


Among the organizations which disclosed their deal size range, the majority of impact investors stated their investment range as USD100K –1.0M. Survey results however illustrate that the respondents estimated their actual investment range to be lower, at a range between USD30K - 70K. Stakeholder concerns that there is a lack of financing below USD100k are nevertheless supported by the desk research.

Financial and non-financial products and services offered

Figure 24

Different types of financial services and products offered by impact investors



Equity is by and large, the most popular financial investment product offered by impact investors, evident from the survey responses from people. Several organizations have reported in the survey, that they use a combination of three types of capital, namely debt, equity and grants, to make their investments, depending on the requirements of the investee organizations. One organization reported to use convertible debts as the most popular investment type.

Though impact investors are predominantly financial service providers, research shows 72.7% of the sample of survey respondents also offers non-financial support services including:

- Product development
- Mentoring
- Capacity building
- Strategic marketing
- Business plan development

Mentoring is the most commonly offered service among these.

It is important to note that the non-financial services offered by investors are not independent services. These services are offered only to the organizations the investors intend to or already have an investment in.

Measurement, disclosure and reporting

Most investors claim to measure their social and environmental impact, with 63.6% of the survey respondents using third-party assistance, and a number of companies reportedly doing financial and legal due-diligence. However, there is a definite lack of transparency in the disclosure of investee organizations as well as reporting of impact. Most investors do not produce public reports on the impact of their activities, as both desk research and survey sample suggest. The few investors who do publish public reports do not use a standardized framework for reporting. 45.5 % of the sample producing an impact report, with only one investor using a standardized reporting framework



Figure 25 Different types of non-financial services and products offered by impact investors

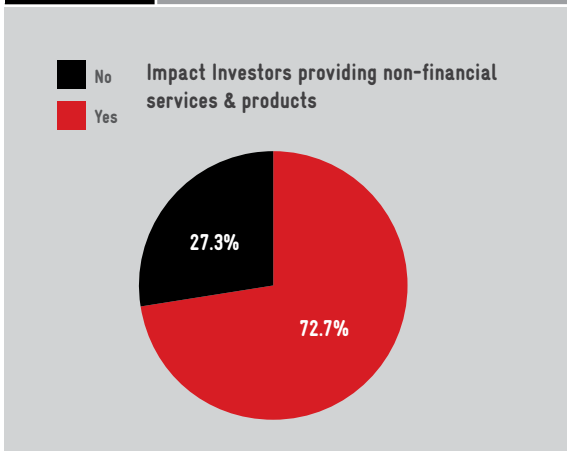
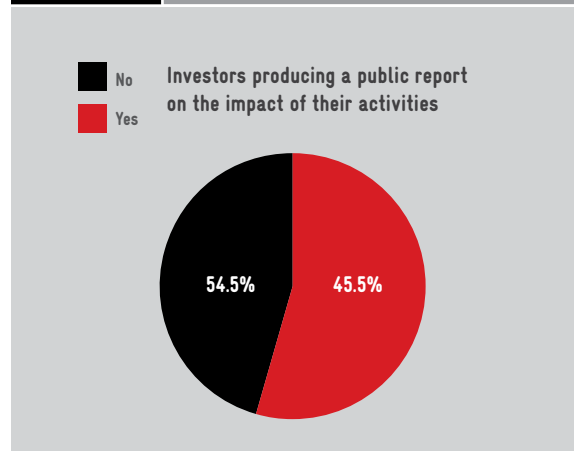


Figure 26 Number of survey respondents that report their impact



Partnerships

Impact investors can partner with incubators as well as other investors. The nature of these relationships may be either financial (co-investing, investing in the incubatee of an incubator etc) or non-financial (pipeline building, scouting etc).

63.5% of investors have membership to formal networks like GIIN and ANDE. Other associations include membership of the Indian Venture Capital Association (IVCA).¹⁰²

Conclusion

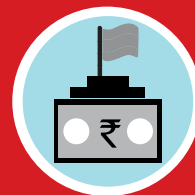
Impact investors active in India comprise of small, new organizations with a high investment and risk-taking appetite, reflecting their confidence in the potential of the social enterprise ecosystem in India. However, it is notable that this sector is heavily dependent on foreign sources of capital, particularly from the USA. With the current financial markets not tipping in favor of an inflow of foreign funds, this highlights the as yet unexplored potential of domestic foundations and trusts to contribute capital for impact investing in India. Furthermore, it can be concluded that there is a lack of transparency of basic market information on the sector, including on the sources of capital of investors, and the size, recipient and geography of investments made. In addition, there is considerable scope for greater transparency and accountability on the impact of these investments to illustrate the potential of the sector to make a difference and contribute to inclusive growth.

Footnotes



101 Refer to annex for list of survey respondents

102 <http://www.indiaivca.org/>





5 Market Challenges and Proposed Solutions

Small and growing businesses that seek to maximize their social and environmental impacts are limited by many of the same challenges that hinder the growth of any Micro, Small and Medium Sized Enterprise (MSMEs). Nevertheless in their pursuit for impact, they face additional problems affecting their sustainability and ability to scale. These challenges urgently need to be addressed if these types of businesses are to be nurtured to be commercially viable, scalable and successful as part of a solution to promote sustainable development. By understanding how and where business growth is impeded in the wider ecosystem, strategies and schemes to address these constraints can be better targeted.

Drawing on multiple sources of inputs, from GIZ's stakeholder engagements, survey research and desk research on literature in the field, this chapter sets out the challenges facing the social enterprise ecosystem and also indicates existing or potential solutions to address the identified challenges.

Access to Finance

Access to Finance is a commonly cited problem for social enterprises in India and refers to the financial barriers related to the lack of equity, debt, and working capital for start-up enterprises, in addition to non financial barriers, such as a lack of financial literacy.^{103 104} There is some difference of opinion among stakeholders as to whether the supply of capital is the problem for social enterprises or whether it is the lack of viability of the businesses. There is a perception that priority sector lending has partially addressed access to debt capital but the bank's requirements on the business as part of their credit risk assessment, and high interest rates prevent MSMEs accessing debt finance.^{105 106 107} For example in a recent survey by Intellectap, only 8% of enterprises identified low availability of finance as a constraint to accessing capital and instead the investor and lender requirements were seen as a barrier.¹⁰⁸

The GOI Twelfth Five Year Plan indicates how the seed stage funding pipeline is severely constricted in India, a common phenomenon in many emerging markets, and there is a lack of domestic venture capital, which is supported by on the ground perceptions.^{109 110 111} Furthermore, regulatory barriers prevent MSMEs receive grant funding.¹¹² The low capital requirements of social enterprises make small deal sizes unattractive to most equity investors.¹¹³ In other regions, studies have indicated that impact investors avoid from smaller deals due to high transaction costs, with the consequence that entrepreneurs do not have access to smaller amounts of capital.¹¹⁴ The issue of transaction costs is a direct challenge facing investors but it also indirectly restricts the access to small amounts of capital to MSMEs. Shared investor due diligence platforms such as the Artha Platform and impact investor circles, have emerged to address this challenge.¹¹⁵

Access to finance does not just affect enterprises. From the investor perspective, raising capital from India is a challenge, in part due to the lack of local capital. This is perceived to be because of the preferences of High Net Worth Individuals (HNI) who are focused on philanthropy.¹¹⁶ The consequence of this is the capitalization of impact investments by international not Indian money as reflected in the early survey analysis, which brings concern regarding the sector's sustainability over the long term.¹¹⁷ Accordingly enterprises are not able to secure the capital they need to scale and have to rely on informal means.^{118 119} In turn there is not a sufficient pipeline of businesses for investors who are interested in investing in enterprises at a later stage of development. Hence,

there is a need for high risk, seed capital in the country for high growth businesses.^{120 121 122}

Box 22**Access to Finance Solutions**

- The development of flexible financial products to address the gap for enterprises with smaller financing needs,
- The reevaluation of credit risk assessment frameworks used by financial institutions.
- The development of more preliminary financing instruments such as angel financing or royalty-based debt.
- The provision of Blended Capital (a mix of equity and grant funding) by financial institutions which would require regulatory changes to allow for blended capital in India.
- Exploring new models of angel investment from corporates in the same line of business as the beneficiary businesses.
- Awareness raising among HNI on the potential to invest in social enterprises and to encourage domestic philanthropy to consider impact investments.

Access to Talent

Access to talent is cited by the majority of stakeholders in reference to the lack of social entrepreneurs as well as qualified, quality and affordable employees to work at social enterprises, particularly at the mid management level.^{123 124 125} There is also a challenge for impact investment funds to find experienced fund managers with the right skill set and market knowledge.¹²⁶ The lack of finance to pay market rate salaries is the main cause of this challenge, with the consequence that these businesses are unable to hire or retain qualified staff and experiences a high staff turnover.¹²⁷

Box 23**: Access to Talent Solutions**

- Fellowships programs are currently used to plug the talent gap for social enterprises and could be expanded. These fellowships, such as that offered by Villgro, places competitively selected individuals to work for a small stipend for a social enterprise for up to a year. Similarly, the Acumen Fund runs a Global Fellows program, where each year they recruit ten Fellows to spend a year with Acumen Fund, which includes two months training in New York followed by a nine month placement with one of Acumen's investee companies. These programs are typically grant funded and so there is a role for grants from governments and foundations to enhance existing schemes or support new fellowship programs to provide employees in target sectors and regions. Fellowship programs are typically held in conjunction with training. (Acumen 2011)
- Fellowship programs exist to provide emerging talent for impact investors and there is scope to increase the reach of such programs. For example, the Monterey: Frontier Market Scouts Program run by Village Capital, aims to train talent scouts and investment managers serving local entrepreneurs and social-minded investors in low-income and weak-capital regions of the world. The certificate program provides two-weeks of training in Monterey, California in January and May/June followed by a six-month internship with impact investors and intermediaries around the world.
- Mentoring programs are a temporary solution which are frequently provided by investors and incubators to social enterprises and have the potential for further expansion. Mentors are usually individuals who have held senior job positions in similar types of organization who can provide guidance and support to the business owner and its staff to overcome any talent gaps. This is normally provided free of cost and relies on the goodwill of the mentor.
- Grant funded training programs for employees of social enterprises up-skill existing employees are currently a solution to this challenge and could be further expanded. For example, Acumen runs a Regional Fellows Program in East where they recruited Fellows working in social enterprises in Kenya, Rwanda, Tanzania, Uganda, and South Sudan to participate in a year long program involving five intensive seminars and culminating in an innovation conference. (Acumen 2011)



- The provision of shared professionals between social enterprises is a potential solution but one that has yet to be implemented. For example a CFO could spend a proportion of their time working for multiple start-ups.
- Secondments from corporates to social enterprises aligned to their core business could be a potential solution as it would also offer individuals with professional development opportunities.
- Multiple social enterprises could partner with shared service providers for a discounted rate to receive outsourced IT, HR, marketing and financial support.
- Gap year programs could be developed to provide a financially sustainable format for the provision of fellows as temporary talent to social enterprises. Many mid-level management professionals opt for a sabbatical year and often pay an agency to place them to work at an NGO for a period of time to gain valuable experience in a developing country. This format could be adapted to place individuals with in a social enterprise for a gap year for a placement fee.

Scaling - Up

This refers to the ability of social enterprises to grow and achieve their growth potential, as well as the replication of successful business models by entrepreneurs in other geographies.¹²⁸ Many enterprises fail to scale due to a range of factors including complex legal structures, a lack of state government support and an absence of basic infrastructure. While mobile phones have partially addressed the challenge, last mile linkages related to the final distribution and sales and marketing to consumers in rural locations, remain a barrier to scale with the consequence many businesses fail to reach their potential.¹²⁹

Box 24

Scaling Up Solutions

- Policy studies supported by donor agencies and investors to establish the business case/profitability for an innovative inclusive business model in a specific industry. This can help refine business models of these industries to commercialize and replicate potentially successful businesses. For example, the IFC has recently launched its Lighting India Campaign and this is an example of a third party supporting the case for the viability of a specific industry.
- Policy studies at a state level on understanding what types of businesses would be better suited to a particular states based on natural resource availability.
- Collaborative partnerships between social enterprises and third parties such as business associations or telecom companies that have 'made the last mile linkage' in far-flung areas, to pilot projects on how to improve last mile market linkages to access consumers.

Regional Inclusiveness

The challenge of poor regional inclusiveness refers to the fact that there is a clustering of impact investments in a few geographies as indicated through this research.¹³⁰ While this is not seen as a problem by investors, it is recognized by donor agencies, incubators and the governments as a challenge in the promotion of balanced regional development.

One of the reasons cited for the lack of regional inclusiveness, in addition to the cost of due diligence is the language barrier. Most investors are from outside India and do not speak regional languages. Hence those that are conversant in English, and often those educated overseas, are perceived to typically receive a greater portion of investments.¹³¹

While existing training and capacity building is a challenge in itself, rural entrepreneurs have less access to the incubation centers and trainings that are available to them and as a result investors state that they are perceived as not investment ready. The consequence of this is that money does not reach its true intended beneficiaries.

Box 25**Regional Inclusiveness Solutions**

- Hold events such as Intelcap's Sankalp Forum, and workshops in other geographies of India outside of Mumbai and New Delhi to link investors with social enterprises based in the regions, and increase awareness among enterprises of the opportunities available for them.
- Run regional business plan competitions to identify entrepreneurs from that region. While initially they may not be investment ready, overtime their capacity could be enhanced so overtime they become investable.
- Develop regional specific investment funds, intended only for social enterprises in specific States.
- Establish regional social innovation think tanks and incubators to act as an enabler of social businesses in certain parts of the country.

Sourcing and Pipeline

Sourcing refers to both the ability to identify potential investees and build up a pipeline of businesses that are investment ready. There is a cost associated with sourcing investees and the expense ratio can be high to undertake any due diligence on potential investees within the management fee of 2%, particularly if they are located in remote regions. This is exacerbated by the lack of credit bureaus which presents a challenge to investors and lenders, as there is no source of comprehensive information on credit histories of these enterprises.¹³²

As a consequence investors restrict the locations they source deals from, rely on their personal networks to identify potential investees, as well as focus on large transaction sizes. The challenge is how to source genuine social enterprises that are located outside the metros at an affordable cost. All in all this results in a clustering of investments in certain regions as has been highlighted by this research which is a concern of donor agencies. Furthermore, it results in a limited pipeline of investment-ready projects for investors.¹³³

Box 26**Sourcing and Pipeline Solutions**

- Identify new models to conduct due diligence or source enterprises, for example shared due diligence platforms such as the Artha Platform.
- Re-evaluation of investment fund operating models to make it viable to absorb the increased due diligence costs.
- Develop new partnerships for example with academic institutions to scout for potential social entrepreneurs.
- Commission knowledge sharing and policy papers on context specific operating models, and local conditions that drive the ways products and services are distributed and sold in specific Indian States. This can help indicate which types of business models can be replicated in different geographies.



Capacity Building and Training

Most social enterprises require significant capacity building and training to attain the education, skills, and access to information in order to execute their business plan.^{134 135 136 137} While there are a number of general business incubators in India and specialist social enterprise incubators offering a broad range of services, these are still not sufficient to build the capacity of enterprises. This is exacerbated by the lack of commercial viability of business incubation.^{138 139 140} As a consequence there is perception that there is a lack of investment opportunities of quality investable businesses and that many high potential businesses fail at the execution stage.^{141 142}

Box 27

Capacity Building and Training Solutions

- Mentoring is used as a key mechanism for building capacity of entrepreneurs. However, most mentoring programs are run on the basis of voluntary participation of the mentors. Mentoring in this current model has scope to expand but more sustainable would be exploring new models for remuneration of high profile mentors.
- Expansion of existing or creation of new social enterprise incubators in new geographies replicating models such as UnLtd, Dasra and Intellectap. This would involve ensuring that there is increased provision of residential and non residential training programs across the country, in addition to co-working spaces and other services.
- Business plan competitions can be held in different regions to build regional capacity among entrepreneurs.
- Virtual business incubators similar to the World Bank's Development Marketplace could be established although it should be recognized that in some of the target geographies there is poor internet access.

Impact Measurement, Transparency and Reporting

The lack of impact measurement of investments, the difficulty in measuring impact and an absence in the standardization of impact measurement and third-party assurance of reporting are all industry challenges. The lack of consistent measurement makes it difficult for investors to compare social, economic, and environmental returns of different investments even though asset owners are increasingly demanding investors demonstrate the social and environmental impacts their investments.^{143 144} However, there is reluctance in the industry to measure impact, due to the difficulty to define impact and also the perception that current impact metrics are not India context relevant and need to be adjusted.¹⁴⁵ Furthermore, there is a lack of disclosure of market information among the sector, for example statistics regarding investment deals.

Box 28

Impact Measurement, Transparency and Reporting Solutions

- A national, regional or global standard to measure impact to measure the impact of investments in social enterprises.
- Creating an India specific platform detailing basic profile information of all the impact investors and incubators operating in the country with details of the products and services they offer.
- Generating a publicly available free to view deal lists of social enterprises that have received investment and their respective locations and sectors.
- Policy development in partnership with asset owners on their reporting requirements.



Ecosystem Coordination, Policy and Regulation

Ecosystem Coordination, Policy and Regulation relates to challenges facing multiple players in the wider ecosystem and can be defined as a range of regulatory barriers that restrict different players in the social enterprise ecosystem, as well as a lack of advocacy support on regulatory matters.¹⁴⁶ Regulatory issues include the lack of a legal structure for social enterprises, restrictive laws on foreign capital flows, equity investment regulations, and restrictions on blended capital.^{147 148}

This challenge also refers to the lack of penetration of information and services offered on a pan India scale to the less developed areas and states in India. The consequence of this lack of market information is that social enterprises in areas outside Tier 1 cities suffer from a low awareness of incubators and impact investment support, and there is a reduced geographical dispersion of investments.¹⁴⁹

Box 29

Ecosystem Coordination, Policy and Regulation Solutions

- India specific platforms. Research policy issues for social enterprise ecosystem actors and produce publications and policy position papers to advocate for change.
- Ecosystem coordination events and workshops to identify policy related issues for action.

Investment Exits

A challenge for the social enterprise system is a lack of investment exits'.¹⁵⁰ An 'exit' refers to a transaction undertaken by an impact investor to recoup the initial equity investment. The lack of investments that have resulted in exits, was cited as the most significant to industry growth in a survey by JP Morgan and GIIN, when asked to rank the three most critical challenges to growth of the impact investment industry.¹⁵¹ There are limited options for exit, specifically in terms of initial public offering (IPO) options in India, although this may change with the advent of the NSE SME exchange. Nevertheless, according to the stakeholders consulted for this research, there have only been a couple of impact investment exits in India to date. The longer investment timeframes than standard investments means that Indian based investors are raising questions as to whether impact investors can be profitable and whether there is a bubble developing in the market. Hence investment exit opportunities are perceived as a challenge in India.¹⁵²

Box 30

Ecosystem Coordination, Policy and Regulation Solutions

- Policy studies on other impact investment markets to analyze different models that investors have exited their investments to date.
- Creation of a database of impact investment exits in the Indian market.



Box 27		Capacity Building and Training Solutions										
Challenges	Who is this challenge for?			Relationship to other challenges								
	Enterprise	Investor	Incubator	Access to Finance	Access to Talent	Scaling Up	Regional Inclusiveness	Sourcing and Pipeline	Capacity Building and Training	Impact measurement, transparency and reporting	Ecosystem Coordination, Policy and Regulation	Exits
Access to Finance	✓	✓	✓		✓	✓						
Access to talent	✓	✓		✓					✓			
Scaling Up	✓	✓		✓			✓					
Regional Inclusiveness		✓	✓			✓		✓				
Sourcing and pipeline	✓	✓	✓				✓					
Capacity Building and Training	✓	✓	✓									
Impact measurement transparency and reporting	✓	✓	✓									✓
Ecosystem Coordination, Policy and Regulation	✓	✓	✓									
Exits	✓	✓							✓			

Footnotes

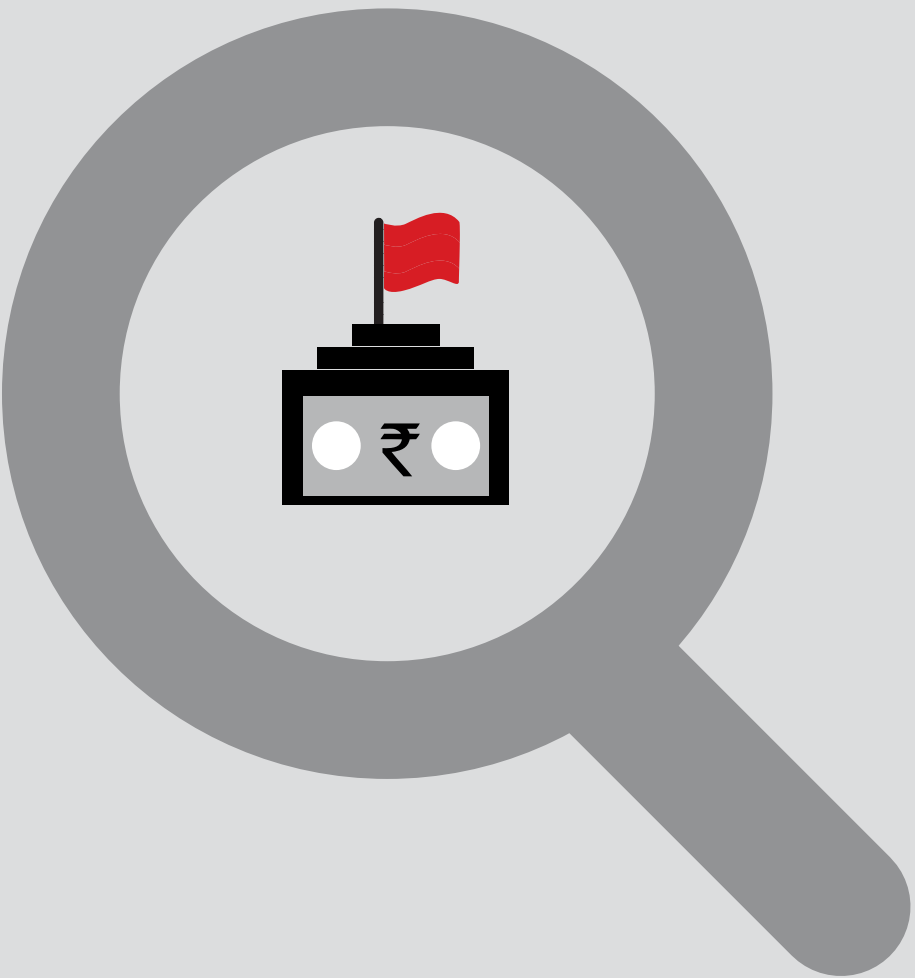


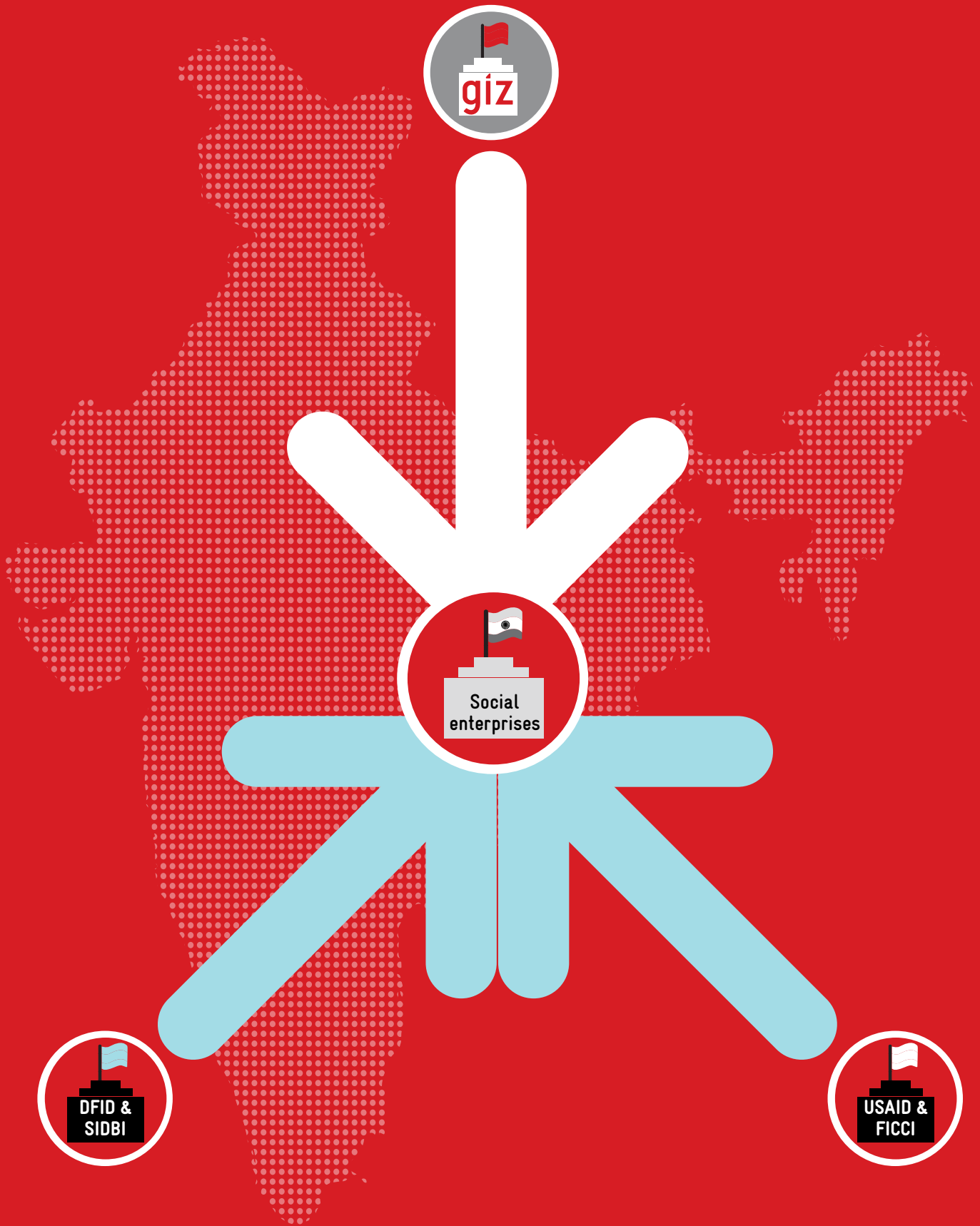
- 103 Stakeholder consultation
- 104 IFC, 2011
- 105 Stakeholder consultation
- 106 Investor survey
- 107 Intellectap 2012
- 108 Intellectap 2012
- 109 GOI, The Planning Commission, 2011 a)
- 110 GOI, The Planning Commission, 2011 b)
- 111 Stakeholder consultation
- 112 Stakeholder consultation
- 113 Stakeholder consultation
- 114 Dalberg 2011
- 115 <http://www.artbaplatform.com/>
- 116 Stakeholder consultation
- 117 Stakeholder consultation
- 118 Stakeholder consultation
- 119 Intellectap 2012
- 120 GOI, The Planning Commission, 2011 a)
- 121 GOI, The Planning Commission, 2011 b)
- 122 Stakeholder consultation
- 123 Investor survey

Footnotes



- 124 Incubator survey
- 125 Intellectap 2012
- 126 Stakeholder consultation
- 127 Intellectap 2012
- 128 Stakeholder consultation
- 129 Intellectap 2012
- 130 Stakeholder consultation
- 131 Stakeholder consultation
- 132 Dalberg 2011
- 133 Survey feedback
- 134 Incubator survey
- 135 Stakeholder consultation
- 136 Investor survey
- 137 Dalberg 2011
- 138 Stakeholder consultation
- 139 Intellectap 2012
- 140 Stakeholder consultation
- 141 Incubator survey
- 142 JP Morgan GIIN 2011
- 143 Stakeholder consultation
- 144 Stakeholder consultation
- 145 Stakeholder consultation
- 146 Stakeholder consultation
- 147 Investor survey
- 148 Incubator survey
- 149 Monitor Institute, 2012
- 150 Stakeholder consultation
- 151 JP Morgan, GIIN, 2011
- 152 JP Morgan, GIIN, 2011







6 Bilateral and Multi Lateral Market Developments

There has been a significant growth of interest in social enterprises in the Indian context in recent years which is reflected in the increased engagement by a wide variety of stakeholders in this agenda. There are a number of new initiatives which have taken shape or are on the agenda of many bilateral and multi-lateral stakeholder organizations interested in promoting the social enterprise ecosystem in the country. This chapter sets out the latest developments in this space based on publicly available information and input from stakeholder consultations.

DFID SIDBI Partnership

Department for International Development (DFID), UK has set up a private sector programme in India to expand private sector approaches and investment for the benefit of the poor and under privileged, as consumers, producers or workers and to deliver jobs, basic services and infrastructure using the model of returnable capital in India's eight low income states - Bihar, Madhya Pradesh, Orissa, Uttar Pradesh, Rajasthan, Jharkhand, Chhattisgarh and West Bengal. The Poorest States Inclusive Growth Programme (PSIG), DFID's first private sector development programme in India is in partnership with the Small Industries Development Bank of India (SIDBI).^{153 154 155} It aims to help poor people in India's low income states get access to financial services to improve their income and quality of life as well as by promoting responsible and sustainable private sector investment. PSIG represents a UK commitment of £65 million (Rs 520 crores) between 2012 and 2019. A component of the programme is the PSIG Samriddhi fund (£35 mn) that will provide 'risk capital' to enterprises that are commercially viable; will deliver jobs, basic services and infrastructure to the poor; and would not otherwise have gone ahead.

The fund will be managed by SIDBI Venture Capital Limited (SVCL), a subsidiary of SIDBI, which will deploy returnable so-called patient capital rather than grants to businesses.¹⁵⁶ In addition to the impact investment fund, DFID will provide technical assistance and capacity building for SVCL to build internal capacity to undertake environmental, social due diligence and screening of its potential investees. According to SVCL, the aim is to invest in approximately 20-50 investments to replicate commercially viable business models in poorer states.¹⁵⁷

In addition to its partnership with SIDBI, DFID is exploring partnership options with others to promote private sector innovations in the poorer states of India. It is anticipated that any partnership will focus on social enterprise incubation and also benefiting those at the bottom of the pyramid in sectors that has greater development impact like Healthcare, Education, Energy and Agri-services.¹⁵⁸

The Millennium Alliance - USAID and FICCI

A new initiative called the Millennium Alliance was launched in July 2012 by the United States Agency for International Development (USAID), the Federation of Indian Chambers of Commerce and Industry (FICCI), and the Government of India (Department of Science and Technology/Technology Development Board). These entities are collaborating to provide what they refer to as "a platform to leverage Indian creativity, expertise, and resources to source and scale innovations being developed and tested in India that will benefit vulnerable populations across India and the world."

Initial contributions to the Millennium Alliance include US\$ 15.4 million combined from USAID, FICCI, and the Government of India and the Alliance plans to grow to US\$ 50 million in the coming year. The Alliance will provide seed funding, business incubation services, networking opportunities, and technical assistance, and will facilitate innovators' access to equity, debt, and other capital. This assistance will go to competitively selected innovators that develop and scale innovative solutions to development challenges in the health (family planning and reproductive health/maternal and child health), agriculture/food security, climate change/energy, water, education (early grade reading), or other sectors that are relevant to base of the pyramid populations in India and around the world.

Elements of the Millennium Alliance are modeled on USAID's global Development Innovation Ventures (DIV) Program, which provides grants to innovators to support them through three stages - proof of concept, pilot/testing, and scale.

GIZ and its role in promoting Small and Growing Businesses with Social Impact

In its endeavor to stimulate the ecosystem for the growth of social enterprises in India, GIZ has itself been exploring how best to engage within the sector in India as part of its MSME Umbrella Program, which currently offers capacity building support to small and growing businesses. Further to this study and the preceding study on 'Responsible Finance – A Catalyst for Responsible Business. International and Indian Trends and Challenges', in 2012 GIZ has undertaken the following activities:

- 'Energize the BOP Practitioners' Workshop' in New Delhi on 26-27 April 2012 in New Delhi.
- 'Identifying an Agenda for Action – Overcoming Indian Social Business Ecosystem Challenges Workshop' on 30 May 2012 in New Delhi.
- 'Bringing Products and Services to the BOP – ICT for Development' a practitioners workshop on 21 July 2012 in Ahmedabad organized in partnership with the Centre for Innovation, Incubation and Entrepreneurship (CIIE), Indian Institute of Management Ahmedabad (IIMA).
- 'Promoting Sustainable and Inclusive Businesses in the North East' a practitioners workshop on 27 July 2012 at the Indian Institute of Entrepreneurship in Guwahati.
- A market study on sustainable and inclusive businesses in the North East of India.

Building on this work, GIZ has announced its intention to establish a new 3 million euro Indo-German bilateral cooperation program starting in 2013 which will focus on promoting small and growing businesses with a social impact, as part of a wider scope of work on strengthening responsible finance in India.



Footnotes



- 153 The 8 states identified are-West Bengal, Jharkhand, Rajasthan, Orissa, Bihar, Chhattisgarh, Madhya Pradesh, and Uttar Pradesh.
154 <http://ukinindia.fco.gov.uk/en/news/?view=PressR&id=706857682>
155 DFID, 2011
156 <http://www.sidbventure.co.in/>
157 Stakeholder consultation 2012
158 DFID, 2012





7 Conclusions and Recommendations

The promotion of inclusive innovation among start-up enterprises that have a positive impact beyond simply financial returns is high on the policy making agenda in India. The Government of India (GOI) and international policy makers' active in India are looking towards these enterprises as an integral part of the solution to the country's developmental challenges. As such, discussions of frugal innovation for small and growing businesses are entering and taking root within the existing MSME access to finance, innovation and wider responsible finance policy agendas.

Yet challenges exist to harnessing the potential power of these enterprises and the wider ecosystem to achieve positive impacts and drive inclusive growth through social entrepreneurship. The interrelated challenges that directly or indirectly exist for social enterprises and their wider support system including impact investors broadly include: Access to Finance, Access to Talent, Scaling Up, Regional Inclusiveness, Sourcing and Pipeline, Capacity Building and Training, Impact measurement, transparency and reporting, Ecosystem Coordination, Policy and Regulation Solutions, and Investment Exits. While definitions of what constitutes a social enterprise, and how to define positive impact differ, it is nevertheless widely agreed among stakeholders, that these challenges need to be overcome and require a concerted effort and partnerships.

These challenges and potential solutions were highlighted through this study which provides an overview of the social enterprise incubator market in India and is complemented by an overview of the impact investment market.

It has highlighted that incubators are primarily operate on a grant funded business model and that while some do seek to generate revenues through other products and services, such as advisory work, they are dependent on funding from foundations, governments and other third parties. In part this relates to the fact that their key target audience, start-up social enterprises, are limited in their ability to pay for the products and services that they offer. Yet the lack of revenue generating opportunities and willingness of their customers to pay for their services has been shown to in no way represent a lack of value of the services that they offer. Rather, this study has shown that there is a distinct shortage of social incubators in the ecosystem overall and in key geographies particularly in the East of the country. Furthermore, there is a need for more training and capacity building, human capital provision and infrastructure, as well as mentoring support for such enterprises to get them investment ready.

In terms of impact investors, this study has identified that most of the impact investment capital which comes in is foreign money, and primarily flowing from the USA. The clustering of investment vehicles and investments around tier-1 cities shows investments in social enterprises in the regions is restricted. The study has also indicated that there is a blurring of the lines between what types of organizations constitute an incubator as opposed to an impact investor, as investors increasingly are offering support services to potential investees to get them investment ready.

Overall, what this study highlighted was that there is a lack of comprehensive information for all organizations active in the ecosystem, for example on who is active in the field, and who offers what products and services to

whom and where. Furthermore, there is also a need for greater transparency and information sharing between all stakeholders to support social enterprises to fulfill their potential.

Recommendations for GIZ

This study and the stakeholder engagement lead to a number of recommendations for GIZ in terms of its potential future role in the social enterprise ecosystem in India. These include for GIZ to:

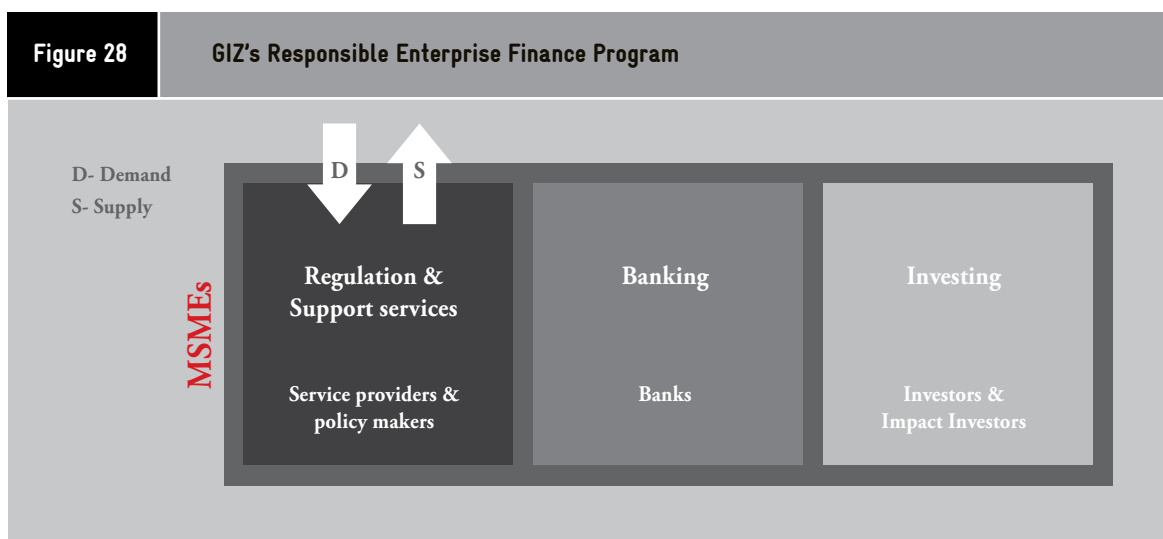
- Develop briefing papers and research in collaboration with third parties for social enterprises on basic market information. This could include:
 - A simple list of incubators and impact investors in India
 - Training programs available targeting social enterprises
 - Information on websites or other resources and toolkits
 - Basic explanation on different financing possibilities for social enterprises
 - Sector specific challenges/solutions for social enterprises e.g. Energy, ICT for Development, Health sectors
- Host a quarterly social ecosystem coordination committee and use these meetings as a platform to develop policy briefs on regulatory issues for social enterprise ecosystem
- Collaborate with others to develop a community platform for the Indian social enterprise ecosystem. This would act as a knowledge hub, collaboration platform and aggregator of third party information sources. The content of this platform may include:
 - Publications, webinars, videos
 - Online mentor network
 - Job portal
 - Online joint due diligence information sharing for impact investors
 - Market information database e.g. profiles of investors and incubators, data on number of investments made by location/sector and investor
 - Training workshops/program schedule
 - Business plan competitions for social enterprises financed by German private sector;
 - Fellowship program for skilled professionals to work at Indian based social enterprises to improve access to talent with financing from the German private sector
- Collaborate with others on Reaching the Regions Road Shows, for example with SVCL, SIDBI Risk Capital, SIDBI refinancing institutions (e.g. NEDFI), and other donor partners to increase social enterprises awareness of funding opportunities and identify social enterprises to finance through Samridhi Fund, Indian Innovations Fund, the Indian Opportunities Fund, and USAID/FICCI Millennium Alliance.
- Organize a pre-Investment capacity building accelerator lasting 1 year in partnership with SVCL targeting approximately 25-30 social enterprises with the objective to build their capacity to meet the criteria for receiving investment via Samridhi Fund or the Indian Innovations Fund. This could include the development of a standardized curriculum to be developed that may be used by other incubators. The content would include a mentoring element, residential training on skills building and peer to peer exchange.
- Develop a post investment capacity building of social enterprises funded by SVCL under its range of social enterprise funds. This could include a formal mentor program where experts are remunerated a consulting fee on a success based model.
- Build capacity of India incubators through a knowledge exchange visit of representatives of Indian social enterprise incubators/support system players and other representatives to another emerging economy, e.g. Brazil. The purpose of this knowledge exchange would be to identify learning for India of incubator programs, identify new social enterprise business models that could be replicated in India, learn about other policy environments,



and locally developed solutions to ecosystem challenges. This visit would be documented in a publication resulting from exchange giving examples from the country visited with implications for the Indian context.

- Organize a knowledge exchange visit of Indian mainstream incubators/support system players to Germany to learn about German examples of energy efficiency incubation. This visit would be documented in a publication resulting from exchange giving examples from Germany with implications for the Indian context.
- Develop and implement standardized accelerator training program and other training programs to strengthen social enterprise incubators/accelerators.
- Develop and implement standardized accelerator training program and other training programs to strengthening mainstream MSME business incubators specifically including TIFAC supported incubators on energy efficiency and innovation. These incubators capacity would be built to identify technological innovative product spin offs to finance under the SIDBI energy efficiency innovation credit line. This could be done in collaboration with KFW and SIDBI Risk Capital.
- Develop an accreditation/certification program for social enterprise vendors and in turn the building of a network & skill set of vendors to address social enterprise needs. This would be linked to the community platform.

Looking forward, these recommendations will be considered as potential interventions as part of a new EUR 3 million Indo-German bilateral program with a focus on Responsible Enterprise Finance in India as a new phase of GIZ and SIDBI collaboration. This anticipated program starting in 2013 will have the objective of strengthening financial Institutions as multipliers for responsible business behavior of MSMEs and it will feature three components of activities: Investment, Banking and Regulation and Support Services for MSMEs. It is anticipated that building on the findings from this study, this new program will be able to increase the demand for capacity building by social enterprises to improve their access to finance and non financial services. Furthermore, it will seek to improve the financial and non financial service environment, as well as information exchange and above all strengthen MSME policy to promote social entrepreneurship and innovation in India.



Appendix

1 Investor Sample

33 impact investors active in the Indian social enterprise ecosystem were identified for the study. A combination of desk research and survey questionnaire responses was used to analyze the investor space in India. 33% in the sample responded to the online survey questionnaire. The occupational profiles of the respondents range from Associates to CEO's and Founders, providing a diverse set of opinions. The companies that responded to the survey are highlighted in orange.

Table 2

Investor sample with survey respondents (highlighted in red)

S. No.	Organization Name	S. No.	Organization Name
1.	Aavishkaar	18.	Grassroots Business Fund
2.	Accion Venture Labs	19.	Impact Investment Partners
3.	Acumen Fund	20.	CIIE-IIM Ahmadabad
4.	America India Foundation (AIF)	21.	INFUSE Capital
5.	Ankur Capital	22.	Invested Development
6.	Anavo Global	23.	KL Felicitas Foundation
7.	Ashoka	24.	Leapfrog Investments
8.	Bamboo Finance	25.	LGT Venture Philanthropy
9.	Beyond Capital Fund	26.	Lok Capital
10.	BP Venture	27.	Mumbai Angels
11.	Chennai Angels	28.	New Ventures (India)
12.	Chilasa Venture	29.	Omidyar Network
13.	Upaya Social Venture	30.	Seed Fund
14.	Elevar Equity	31.	Unitus Capital
15.	Ennovent - Social Enterprise Fund	32.	Unitus Impact
16.	First Light India Accelerator	33.	Village Capital
17.	Venture East		



2 Incubator sample

16 incubators active in the Indian social enterprise ecosystem were identified for the study.

8 of the 16 incubators (50%) in the sample responded to the online survey questionnaire. The occupational profile of the respondents ranged from co-founder/director to operational manager. The companies that responded to the survey are highlighted in orange.

Table 2	
Investor sample with survey respondents (highlighted in red)	
S. No.	Name of the Incubator
1.	CIIE IIM - Ahmedabad (NB, Answered investor survey)
2.	Dasra
3.	Indian Angel Network
4.	Intellectap
5.	Milagrow
6.	National Innovation Foundation
7.	RTBI IIT Chennai
8.	SIDBI Incubator - IIT Kanpur
9.	Technology & Action for Rural Advancement (TARA)
10.	TREC - STEP
11.	Start Up! India
12.	UnLtd India
13.	Venture Nursery
14.	Villgro Innovations Foundation
15.	Waste Ventures
16.	Women Change Makers



3 Products and services offered by incubators – frequency

Table 3		Products and services offered by incubators
Products	Sub products	Frequency
Infrastructure	Access to office facilities	4
	Access to labs	4
	Access to technology/tools	4
Access to human capital/manpower	Temporary Management Services	3
	Operational support services	4
Mentoring		11
Advisory Services		8
Training programs	Residential programs	3
	Non-residential programs	4
Funding	One-off grants	6
	Progressive grants	1
Awards and Competitions		3
Research and Publications		7
Events		2
Network Access		11



4 Incubator profile

Table 4		Incubator profile	
Name of Incubator	HQ	Website	Geographic Focus
CIIE IIM - Ahmadabad (NB. Answered investor survey)	Ahmadabad, Gujrat	http://www.ciieindia.org/	Across India
Dasra	Mumbai, Maharashtra	http://www.dasra.org	Maharashtra, Rajasthan, Karnataka, Gujrat, Uttar Pradesh
Indian Angel Network	New Delhi, NCR	www.indianangelnetwork.com	Across India
Intelcap	Hyderabad, Andhra Pradesh	http://www.intelcap.com/	Across India
Milagrow	New Delhi, NCR	http://www.milagrow.in/	Across India
National Innovation Foundation	Ahmadabad, Gujrat	www.nifindia.org/	Across India
RTBI IIT Chennai	Chennai, Tamil Nadu	www.rtbi.in/	Across rural India
SIDBI Incubator - IIT Kanpur	Kanpur, Uttar Pradesh	www.iitk.ac.in/siic/	Across India
Technology & Action for Rural Advancement (TARA)	New Delhi, NCR	http://www.startup-india.org	Across India
TREC-STEP	Trichy, Tamil Nadu	www.tara.in/	Bundelkhand region of Central India
Start Up! India	Mumbai, Maharashtra	www.trecstep.com/	Across India
UnLtd India	Mumbai, Maharashtra	www.unltdindia.org/	Across India
Venture Nursery	Mumbai, Maharashtra	http://www.venturenursery.com	Across India
Villgro Innovations Foundation	Chennai, Tamil Nadu	http://villgro.org	Across rural India
Waste Ventures	Fremont, CA USA	http://www.wasteventures.org/	Bihar
Women Change Makers	Geneva, Switzerland	http://www.womenchangemakers.org/	Across India



5 Sector focus of incubators

Table 3		Incubator sector focus									
Incubator	Sectors										
	Health	Energy	Education	Water And Sanitation	Agriculture	Technology	Financial Services	Housing	Waste Management	Croos-sectoral	Other
CIIE-IIM A	✓		✓			✓	✓				
Dasra	✓	✓	✓		✓	✓					Disability Disaster Management
Indian Angel Network	✓	✓	✓	✓	✓	✓	✓				Retail, Telecom, Travel, Tourism & Hospitality
Intellectap	✓	✓	✓	✓	✓		✓				
Milagrow										✓	MSME services
National Innovation Foundation				✓		✓					
RTBI IIT Chennai						✓					
SIDBI Incubator-IIT Kanpur						✓					
Start-Up! India										✓	
TARA		✓		✓	✓	✓		✓	✓		
TREC-STEP											
UnLtd, India				✓		✓		✓		✓	
Venture Nursery		✓	✓			✓					Media & Entertainment, Retail, e-Commerce (all socially inspired)
Villgro				✓			✓				
Waste Ventures				✓					✓		
Women Change Makers	✓		✓			✓					Politics
Total	5	5	6	7	4	10	4	2	2	3	5



6 Impact investor profile

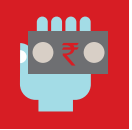
Table 3		Incubator sector focus		
Name of Investor	HQ	Website	Geographic Focus	Deal Size
Avishkar	Maharashtra	http://www.avishkar.in/	<ul style="list-style-type: none"> • Orissa • Karnataka • Andhra Pradesh • Uttar Pradesh • Gujarat • Rural Maharashtra • Union Territory of Pondicherry • Uttarakhand • Rural Western Rajasthan 	Upto USD 50,000
Accion Venture Labs	USA	http://www.accion.org	<ul style="list-style-type: none"> • Northern India, Bihar • Mumbai • Bangalore 	
Acumen Fund	USA	http://www.acumenfund.org/ten/	<ul style="list-style-type: none"> • Mumbai; rural, peri-urban and urban areas 	USD 300,000 - 2,500,000
American India Foundation (AIF)	USA	http://www.aif.org	<ul style="list-style-type: none"> • National Capital Region 	
Anavo Global	Maharashtra	www.anavoglobal.com/	<ul style="list-style-type: none"> • Across India 	
Ankur Capital	USA	http://ankurcapital.com	<ul style="list-style-type: none"> • Mumbai 	
Ashoka	USA	http://ashoka.org/	<ul style="list-style-type: none"> • Across India 	
Bamboo Finance	Switzerland	www.bamboofinance.com/	<ul style="list-style-type: none"> • Across India 	
Beyond Capital Fund	USA	http://beyondcapitalfund.org/	<ul style="list-style-type: none"> • Across Rural India 	
BP Ventures	USA	www.bpventuresinc.com/	<ul style="list-style-type: none"> • Across India 	
Chennai angels	Tamil Nadu	www.thechennaiangels.com/	<ul style="list-style-type: none"> • Tamil Nadu 	
Chilasa Ventures	Outside India	http://chilasa.org/	<ul style="list-style-type: none"> • Tamil Nadu 	
CIIE-IIM Ahmedabad	Gujarat	http://ciieindia.org/	<ul style="list-style-type: none"> • Across India 	



Name of Investor	HQ	Website	Geographic Focus	Deal Size
Elevare Equity	USA	http://www.elevarequity.com	<ul style="list-style-type: none"> • Hyderabad • Bangalore • Trichy • Chennai • Madurai • Bagalkot and Kolar • Maharashtra 	
Ennovent-Social Enterprise Fund	Austria	http://www.ennovent.com	<ul style="list-style-type: none"> • Across rural India 	
First Light Ventures	USA	http://firstlight.vc/	<ul style="list-style-type: none"> • Across India 	
Grassroots Business Fund	USA	http://www.gbfund.org/	<ul style="list-style-type: none"> • Across India 	USD 100,000 - 350,000
Impact Investment Partners	United Kingdom	http://www.impactinvestmentpartners.com/	<ul style="list-style-type: none"> • Across India 	USD 500,000 - 1500,000
INFUSE Capital	Gujarat	http://infusecapital.in/	<ul style="list-style-type: none"> • Across India 	
Invested Development	USA	http://investeddevelopment.com/	<ul style="list-style-type: none"> • Across India 	Upto USD 1500,000
KL Felicitas Foundation	USA	http://www.klfelicitasfoundation.org/	<ul style="list-style-type: none"> • Maharashtra • Rajasthan 	USD 100,000 - 1000,000
Leapfrog Investments	Australia	http://leapfroginvestments.com/	<ul style="list-style-type: none"> • Across India 	
LGT Venture Philanthropy	USA	http://www.lgtvp.com	<ul style="list-style-type: none"> • Rural Maharashtra 	
Lok Capital	Delhi	http://www.lokcapital.com/	<ul style="list-style-type: none"> • Karnataka • Tamil Nadu • New Delhi • West Bengal • Rajasthan • Uttar Pradesh • Haryana 	USD 200,000 - 1000,000
Mumbai Angels	Maharashtra	www.mumbaiangels.com/	<ul style="list-style-type: none"> • Maharashtra 	USD 100,000 - 400,000
New Ventures (India)	USA	http://www.newventuresindia.org	<ul style="list-style-type: none"> • Across India 	



Name of Investor	HQ	Website	Geographic Focus	Deal Size
Omidyar Network	USA	http://www.omidyar.com	<ul style="list-style-type: none">• Across India	
Seed Fund	Maharashtra	http://seedfund.in/	<ul style="list-style-type: none">• Maharashtra• Karnataka• Delhi	USD 9,000,000 - 60,000,000
Unitus Capital	USA	http://unituscapital.com	<ul style="list-style-type: none">• Across India	USD 500,000 onwards
Unitus Impact	USA	http://www.unitusimpact.com	<ul style="list-style-type: none">• Across India	USD 50,000 - 100,000
Upaya Social Ventures	USA	http://upayasv.com/	<ul style="list-style-type: none">• Haryana• Uttar Pradesh• Madhya Pradesh• Rajasthan• Bihar• Orissa	USD 25,000 - 75,000
Venture East	Andhra Pradesh	www.ventureeast.net/	<ul style="list-style-type: none">• Across India	Upto 15,000,000
Village Capital	USA	http://www.vilcap.com/	<ul style="list-style-type: none">• Gujarat• Uttar Pradesh	USD 10,000 - 50,000



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SIDBI, RK Das, Dr RK Singh, K.G.Alai, AK Kapur

Start up India, Manisha Gupta

Unlimited India, Pooja Warier

USAID, Anupama Rajaram



Participants' list

'Identifying an Agenda for Action -Overcoming Indian Social Business Ecosystem Challenges'

Venue: Eschborn meeting room, B 5/2 Safdarjung Enclave, GIZ

Date: 30th May

S. No.	Organisation	Name
1	Aavishkaar Venture Management Services	Mr Ajay Manjar
2	Accenture Development Partnerships and Women Change Makers	Mr. Aftab Khanna
3	CII-ITC Centre of Excellence for Sustainable Development	Mr Sachin Joshi
4	CIIE (Ecoleaders, Infuse Capital etc)	Mr Shashank Rastogi
5	DFID	Ms Ritu Chhabra
6	DFID	Ms Aditi Rajyalaxmi
7	Ennovent	Mr Dibbijoy Shukla
8	Ennovent	Mr. Saurabh Lahoti
9	FICCI	Ms Vinita Sethi
10	FICCI	Ms. Kriti Palni Surya
11	IDOBRO	Ms Karon Shaiva
12	Intellectap	Ms Manju George
13	National Innovation Foundation	Mr. Mahesh Patel
14	SIDBI	Mr Niranjan
15	SIDBI	Dr. R. K. Singh
16	SVCL (SIDBI)	Mr R. V. Dilip Kumar
17	USAID	Ms. Anu Rajaraman
18	Villgro Innovations Foundation	Mr Reiham Roy
19	Shriram Insititute for Industrial Research	Mr. Bhupesh Sharma
20	TARA	Ms. Kanika Kalia

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Web Resources

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Deutsche Gesellschaft für
Internationale Zusammenarbeit (GIZ) GmbH

Private Sector Development
2nd floor, B-5/1, Safdarjung Enclave,
New Delhi 110 029
T: +911126715964/5968
F: +911126715967
E: manfred.haebig@giz.de
I www.giz.de