

# INVEST. CATALYZE. MAINSTREAM.

The Indian Impact Investing Story



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# ABOUT INTELLECAP



Intellectap is a pioneer in providing innovative business solutions that help build and scale profitable and sustainable enterprises dedicated to social and environmental change. The company's unique positioning at the intersection of social and commercial business sectors allows it to attract and nurture intellectual capital that combines the business training of the commercial world with the passion and commitment of the social world to shape distinctive solutions. Intellectap was founded in 2002 and has more than 100 employees. Intellectap has worked with more than 60 clients on over 250 engagements across 15 countries.

For more information, please visit [www.intellectap.com](http://www.intellectap.com)

## ABOUT INTELLECAP CONSULTING AND RESEARCH PRACTICE

Intellectap's Business Consulting and Research Practice area offers strategic advisory services to international development organizations, businesses, and governments that seek to engage with BoP markets. These include market-based strategy solutions, high-quality and comprehensive research, and thought leadership that can be used to facilitate and direct business, investment, and market decisions to create a positive impact for people at the BoP. We combine our business acumen with a deep understanding of development issues to help clients around the world.

- Our expertise in solving strategic challenges across industries and markets enables us to bring a rigorous analytical approach to addressing development issues.
- Our research, independent and commissioned, drives thought leadership and is designed to promote actionable solutions to BoP challenges in Intellectap's Focus Sectors and to function at the enterprise, sector and policy levels.
- Our understanding of the rural and low-income consumers drives our ability to address many of the complex challenges when working at the BoP.
- Our ability to drive multi-stakeholder partnerships that involve Corporations, Social Enterprises, Multilateral Agencies and Development Finance Institutions, and Donors enables us to innovate in delivering high impact solutions.

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# FROM INTELLECAP ...

At Intellecap, we have always been fascinated by the power of entrepreneurship in driving social change. The passion and drive shown by numerous entrepreneurs working with the Base of the Pyramid is one of the most powerful forces to address the many challenges of access, affordability and livelihoods facing low-income communities in India. Our own tryst with narrating this entrepreneurial journey began with our first research series 'Inverting the Pyramid' from 2007, analyzing the rapid evolution of the microfinance sector in India. We were fortunate to have always been close to all the practitioners in the sector and the series was our effort to provide a robust commentary on the many highs and lows of this sector.

With the launch of the Sankalp Forum in 2009, we expanded our research focus to all the other impact sectors. From a small group of entrepreneurs endeavouring to make a difference, we have watched the impact enterprise landscape in India proliferate and enthusiastically espouse the cause of for-profit market solutions for providing access to affordable basic needs. Our interactions with this emerging class of highly motivated entrepreneurs and their innovative business models inspired our studies on the impact enterprise landscape in 2012 and 2013.

The impact investing ecosystem that has emerged today is a consequence of the many twists and turns along the entrepreneurial and investing journey over the years. With the spotlight today firmly on impact investing and its role as a catalyst in spurring the private sector towards driving social change, this study is a timely opportunity to capture this journey and the current state of the sector in India.

Intellecap has at various points in time worn several hats – that of an observer, participant and thought leader – often simultaneously. This deep involvement with the sector has given us more than a strong kinship with the different stakeholder groups. We feel an abiding respect for the effort and initiatives of each and every participant in this ecosystem, simply because we know of the formidable obstacles they face in realizing their respective goals. We are immensely grateful to all the investors who shared their own experiences with impact investing in India, helped us verify our many hypotheses and validate some of our deal findings. We also thank all the entrepreneurs and other sector enablers who have spared their invaluable time to share their knowledge and insights that make this report possible. We have been fortunate that many veterans of this sector, both within Intellecap and outside, were able to share their expert views and help us fine tune our findings. Our special thanks to them for helping us bring the necessary rigour to our research. Finally, we are very grateful to the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) for supporting this study.

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# FOREWORD

First, the good news. Impact investing has become well-established in India, with over US\$ 1.6 billion invested in over 220 enterprises. Almost everybody in the investing space is represented – from Angels to Family Offices to VC funds to PE funds, with a fair sprinkling of DFIs and Foundations, and though not mentioned, even the Government of India, through the Department of Science and Technology, which funds entrepreneurs directly as well as through incubators at various educational institutions. In addition, there are a fair number of support players – specialized investment bankers, advisory firms, pitch-book makers, valuation coaches, and events like business plan contests, start-up boot camps, mentoring workshops, and then there is Srijan and Sankalp.

The business media regularly reports, often out of proportion in terms of deal size, the steady flow of deals that keep happening. Another feature of success, follow-on funding, is common now – 70% of the US\$ 1.6 billion was in terms of follow-on funding. Yet another metric – the ability to leverage mainstream capital, has also kicked in with numbers like 2X and 3X. For someone like me who did a survey of “development enterprises” (as we called them then) in 1991, and could identify only Fabindia as the sole for-profit development enterprise, this is eye-rubbing progress.

So it would appear – “all izz well” as the night watchman says in the movie “Three Idiots”, only to be made fun of. The report itself indicates some issues, and there are some serious ones it is silent about that I will highlight below. To begin with, 60% of all impact investments happened in just 15 out of the 220 enterprises. Second, there was a large concentration -70% of total investment was in the microfinance and financial inclusion sector. Of the investments made in the other sectors, two-thirds were in again just 15 enterprises. In other words, the herd mentality remains predominant and investors still find comfort in each other’s company. True early stage funding is still not available and even those few who are lucky with raising quasi-equity, getting venture debt is next to impossible from our banking system. So growth gets funded with equity, which is unleveraged. All this is bad news.

But let me speak about the unspeakable – the biggest constraint to impact enterprises in India is the political economy of most of the sectors which affect the lives of the people at the base of the pyramid. Be it microcredit, drinking water, sanitation, housing, energy, education, vocational training or health care, all these services were traditionally provided by the government, at highly subsidised rates, and offered with low standards. The poor put up with low quality, low reliability and queuing and rationing in the hope of getting a morsel. The service providers chain – government at the back end and often private at the front end since 1992 – has developed its own vested interest in this status quo. And all this is blessed by the political leadership, as the BoP is also their vote bank and extending freebies is one way of buying loyalty.

In this scenario comes the Harvard or IIT educated idealistic impact entrepreneur. Needless to say, he is a like a juicy calf walking into a den of hungry lions. What happened in Andhra Pradesh with the microfinance sector (and the money lost was exactly US\$ 1.6 billion in 2010 exchange rate), could get repeated in sector after sector, state after state, as long as this political economy prevails. Don't mean to poop the party, but we must take a Sankalp (pledge) to address that issue, else we are playing games. I cannot help but end with quoting the opening lines of one of my favourite poems, Atlantis, by WH Auden:

Being set on the idea  
Of getting to Atlantis,  
You have discovered of course  
Only the Ship of Fools is  
Making the voyage this year...

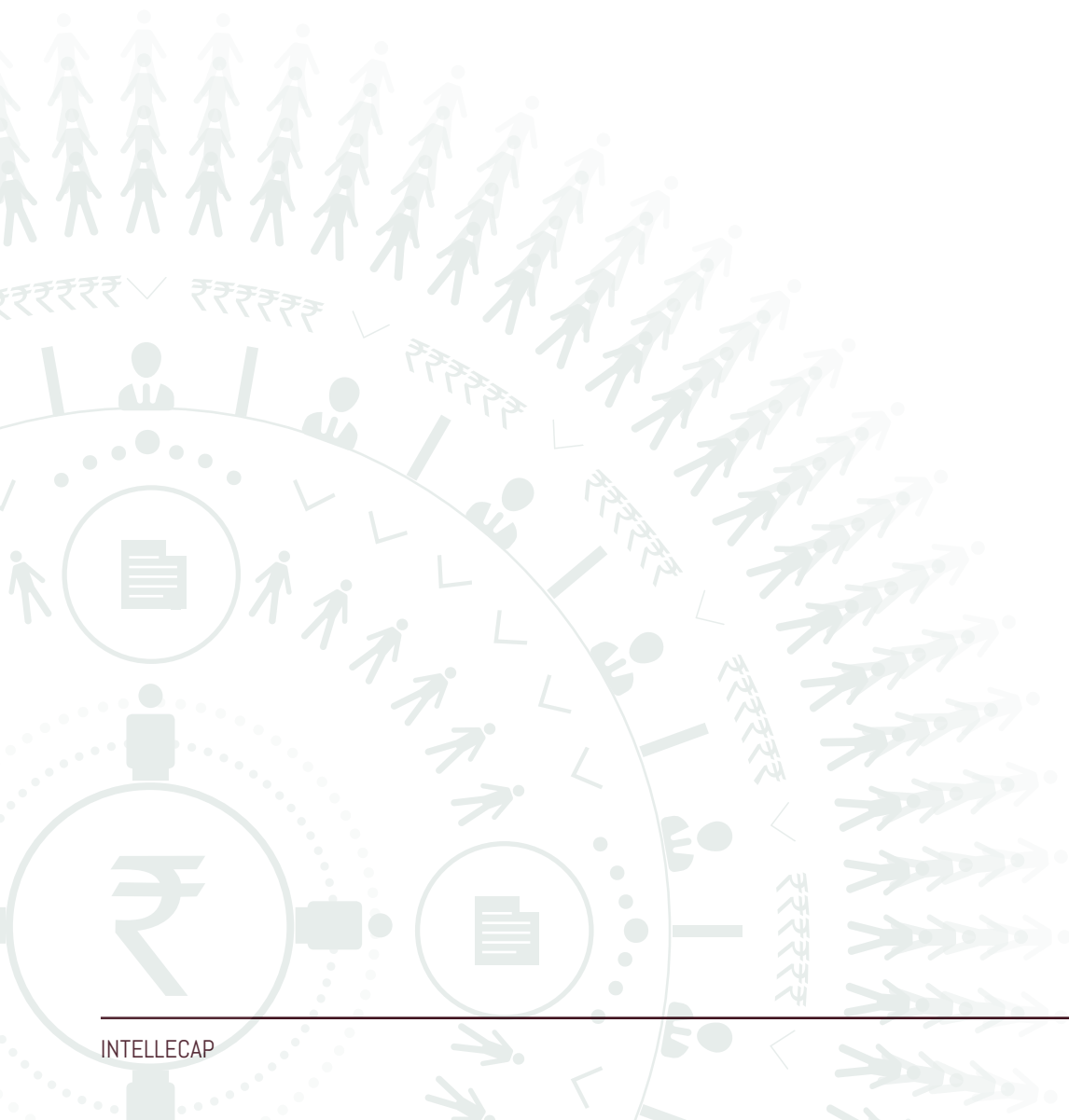
For those who would like to read the full poem, please visit  
<http://allpoetry.com/poem/8492995-Atlantis-by-W-H-Auden>

## **Vijay Mahajan**

Founder & Chairman  
BASIX Group

# HIGHLIGHTS OF THE STUDY

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# HIGHLIGHTS OF THE STUDY

India's impact investing story is one of frugal innovations backed by impact capital that takes significant pioneer risks. The sheer size of the population, complex local infrastructure challenges, and the socio-cultural and economic milieu that is uniquely Indian add further layers to the sector's evolution. Today, India is globally regarded as a major hub for impact investing, with a highly evolved ecosystem comprising diverse stakeholders, well regarded successes in BoP entrepreneurship, pioneering investors, and a wide array of enterprise enablers. This study is an attempt to capture this journey by providing a ring side view of the development of India's impact investing ecosystem. It draws out some of the main influences around the sector's emergence and unique characteristics, the dominant approach to investing, and the key areas of focus for the sector going forward.

## Key Findings:

Indian impact investing sector is characterized by: Innovations **Rooted in Local Context**; Investing that adopts an **Entrepreneur led Approach**; Ecosystem **Focused on Accountability**; and Impact Investors with the **Ability to Unlock Mainstream Capital**

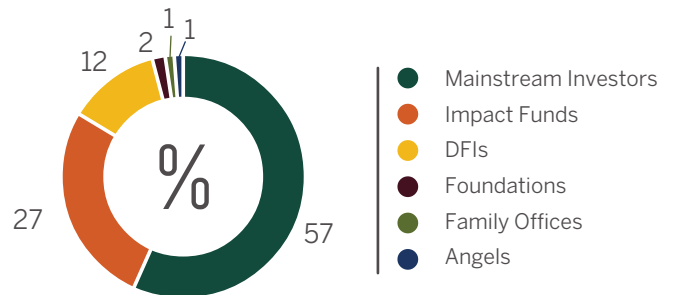


Source: Intellectap Analysis

## US\$ 1.6 billion of capital has been invested in 220+ impact enterprises across India.

- First round investments account for 30% of total investments at ~US\$ 487 million, with around US\$ 1.1 billion in follow-on funding.
- Impact funds have made investments of ~US\$ 435 million while mainstream VC and PE investors have invested around US\$ 906 million, across all rounds. DFIs, Foundations, Family Offices, and Angels account for the rest.

## INVESTMENT SPLIT AMONG VARIOUS TYPES OF INVESTORS



Source: Intellectap Analysis, VCC Edge, Venture Intelligence, Deal Curry

**A large amount of impact capital has found its way into just a few successful business models:**

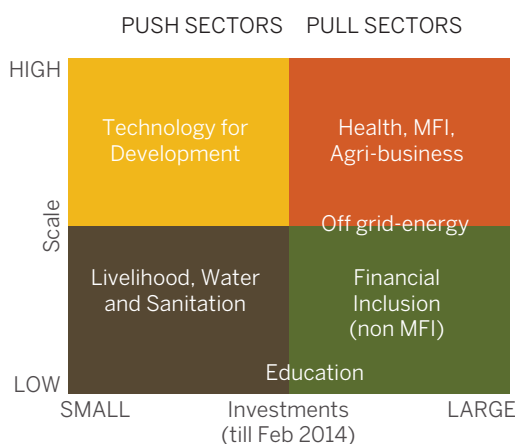
- 60% of all impact investments have been made in just 15 impact enterprises
- 70% of all impact investments were made in the Financial Inclusion (MFI and non-MFI) sector
- Over 50% of all impact investments have been in the microfinance sector, with the top 15 MFIs accounting for 87% of all investments in the sector
- 67% of all impact investments made outside the financial inclusion (FI) sector are in 15 impact enterprises

**Impact Investors’ portfolios have a higher concentration of capital in enterprises with a presence in Western and Southern India. Impact enterprise distribution across India also indicates a similar concentration.** Enterprises in three states - Maharashtra, Tamil Nadu and Karnataka – have cornered the largest share of impact investments.

**Enterprises focused on ‘pull’ sectors with a huge demonstrable demand are attracting the majority of investments from impact investors.** Enterprises that operate in ‘push’ sectors such as livelihoods, water and sanitation continue to lag behind in investor interest.

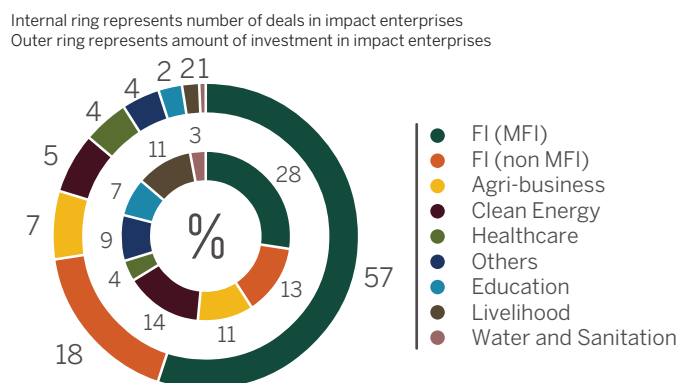
**Healthcare, agri-business and clean energy are the leading sectors outside of FI, attracting investments of ~US\$ 341 million.** Around 75% of all deals in these three sectors have happened over the last five years. The livelihoods sector accounted for 11% of all impact deals but struggled to raise capital as it received only 2% of all impact investments.

IMPACT SECTORS - SCALE v/s INVESTMENTS



Source: Intellectap Analysis

SECTOR WISE SPLIT OF AMOUNT INVESTED & NUMBER OF DEALS



Source: Intellectap Analysis, VCC Edge, Venture Intelligence, Deal Curry

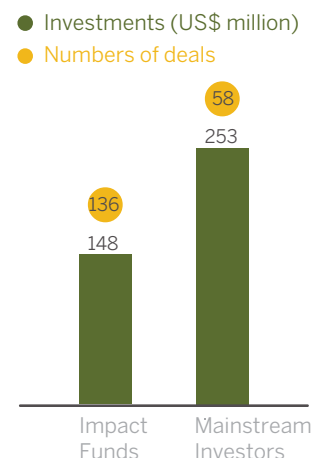
**Venture approach to investing is the dominant impact investing approach in India.** Impact investors are mainly funding high scale, high impact models despite a wide array of models being pursued by impact entrepreneurs. Grant making organizations are also seeking to catalyze and scale impact.

**Impact investing in India is catalytic and unlocks significant mainstream capital.** Impact funds in India have been able to demonstrate an ability to leverage mainstream capital in their investee firms, with the micro-finance sector seeing a leverage of 2X. Outside the MFI sector, fewer impact fund investees have leveraged mainstream capital, but where they have done so, the leverage<sup>1</sup> has been significantly higher, with a median leverage of 3X.

**The distinction between impact investors and mainstream investors is blurred. Mainstream investors have been investing in the early stages of impact enterprises and have invested more capital in the first round investments than impact investors.**

Impact investors have invested in twice as many impact enterprises, with a greater breadth of business models across sectors compared to mainstream investors. One key difference is that mainstream investors invest in impact enterprises that can absorb larger amount of capital and are geographically closer to the fund's physical location while impact investors have been investing in difficult and remote geographies and in smaller quantum. Increasingly though, the obligation is on impact funds to articulate and present their differentiation better.

#### FIRST ROUND INVESTMENTS



Source: Intelicap Analysis, VCC Edge, Venture Intelligence, Deal Curry

**Equity remains the dominant instrument for impact investments despite a massive demand for diversified financial products from impact enterprises.** A sizable number of small, sustainable enterprises with the ability to create significant impact have, therefore, failed to attract impact capital.

**Capital flows in India's impact investing sector do not follow the natural flow of grant to impact capital, in turn leading to mainstream investment.** In India, there are several instances of philanthropic funds being invested in later stages and mainstream investors funding early and first round deals.

**Domestic capital continues to elude impact funds in India.** Impact, in the absence of a clear articulation of intent, is not seen as a major distinguishing criterion between mainstream and impact businesses among domestic investors.

**With only 15 documented exits at a premium by impact investors, exits remain the Achilles heel of the impact investor.** Microfinance sector leads the exit track record, while non-microfinance impact sectors have seen very few exits. Long gestation business models, slow scale up, and macro-economic conditions are some of the key reasons cited for low exits.

<sup>1</sup> Leverage has been defined as the ability of the first round impact fund investments to attract follow-on mainstream capital. It is calculated as the ratio of later rounds investments by mainstream investors to first round investments by impact funds.



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# SETTING THE CONTEXT

India is seen as a leading hub for impact investing with a well-developed ecosystem of enterprises across all the critical needs sectors, diverse set of investors, enablers such as incubators and accelerators, and forums and convening platforms. India's early experiences with social entrepreneurship, macroeconomic conditions, and related regulatory and policy changes are some of the key influences that have shaped the sector.

## India has a Long History of “Social” Entrepreneurship

While social entrepreneurship has entered the popular lexicon recently, India has had a long history of entrepreneurs and visionaries, who have promoted the entrepreneurship approach to achieving social good. Early social entrepreneurs were inspired by the Gandhian philosophy and spearheaded movements aimed at economic self-sufficiency and preservation of human dignity. All these initiatives were philanthropic models built around the idea of selfless service.

Around the mid-1970s, challenges of food security led to the emergence of social entrepreneurs like Dr. Kurien, who played a critical role in building India's milk self-sufficiency by putting producers first. Amul, a collective organization that emerged from this movement is probably the most celebrated Indian social enterprise today and the best example of public private partnership (PPP) in India. The role of the government in supporting the Green Revolution<sup>2</sup> and the White Revolution<sup>3</sup> programs in agriculture and dairy sectors signaled its intent to support social entrepreneurship. The Self Employed Women's Association (SEWA), set up as a trade union under the visionary leadership of Elaben Bhatt, spawned multiple woman-led enterprises over time, and Fabindia, established as a corporate entity to generate livelihoods for artisans in rural India, are other prominent impact enterprises of that period. These visionaries chose legal structures (Cooperative, Trade Union and Company) that brought in the results they sought. These enterprises were led by charismatic leaders for whom personal wealth creation was not the key motive.

## The Era of 1990s

The Balance of Payments crisis and the economic reforms in 1991 was a major turning point in India's entrepreneurial history, as it was the first time that private enterprise was able to participate freely in the economic development of the country. The government also saw the need to provide financial support to small and growing businesses and established institutions such as the Small Industries Development Bank of India (SIDBI). The IT revolution in the late 1990s led to the establishment of several start-ups and a few venture

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<sup>2</sup> India's Green Revolution increased food production by introducing high-yield crop varieties and modern agricultural techniques.

<sup>3</sup> The White Revolution and Operation Flood in India developed a grid of more than 700 villages and towns, which reduced the seasonal and regional price variations of milk while increasing producer incomes.

capital firms thereby bringing the first real wave of entrepreneurship in the country. Entrepreneurship mushroomed, and the number of Micro, Small and Medium Enterprises (MSMEs) increased steadily in India from 6.78 million in 1990-91 to 13.36 million in 2007-08.<sup>4</sup>

The decade of the 1990s saw private capital driving economic growth in urban India, while rural India continued to rely on the government (through poverty alleviation and rural development programs) and a wide network of not-for-profit organizations. Financial empowerment of the BoP populations emerged as a key tenet and microfinance emerged as a strong tool of intervention in rural India. The movement was initially championed by the not-for-profit sector through government programs and Self Help Groups (SHG), and progressive private institutions such as BASIX. As scale became important, microfinance institutions (MFIs) realized that the not-for-profit structures and tax related issues would not allow them to scale, leading to many of them transforming into for-profit entities. Institutions such as Share, Spandana and SKS demonstrated the real potential of microfinance as they moved away from not-for-profit to for-profit structures. Supported by a major drive by forward-looking banks to build their priority sector lending (PSL) portfolios, MFI funding received a boost.

## **Microfinance and Promotion of Social Entrepreneurship in India**

Microfinance in India emerged in response to the failure of formal institutions to provide rural credit for starting enterprises and meeting household requirements. The SHG model was formally conceptualized and initiated by The National Bank for Agriculture and Rural Development (NABARD) in 1996, when it launched pilot projects across the country to link SHG models to banks. In addition to the SHG model, various organizations influenced by the Grameen Bank in Bangladesh started adopting the Joint Liability Group (JLG) model to provide credit to the rural poor. This model was highly scalable, easily replicable and produced some of the most successful for-profit MFIs such as SKS, Share Microfinance, Spandana, and later on, Equitas, Ujjivan and Janalakshmi. NABARD, SIDBI and Rashtriya Mahila Kosh (RMK) were three important government institutions that promoted the growth of microfinance industry.

The growth of for-profit MFIs enabled a large number of highly qualified professionals (of which many were ex-bankers) to become entrepreneurs and set up ventures that catered primarily to the BoP markets. The phenomenal growth of microfinance in the 2000s demonstrated for the first time that it was possible to run an entrepreneurial venture largely focused on the BoP successfully and at scale.

Institutions such as National Innovation Foundation (NIF), Grassroots Innovation Augmentation Network (GIAN) and other government programs such as Technopreneur Promotion Programme (TePP) and Technology Information, Forecasting and Assessment Council (TIFAC) were promoting innovative ideas to solve basic challenges being faced by the Indian population.

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<sup>4</sup>Ministry of Micro, Small and Medium Enterprises, Government of India

Microfinance brought in renewed focus to the rural landscape and also brought to the attention of Indian entrepreneurs, the opportunity to make a difference and build a business simultaneously. This engendered entrepreneurial activity in other critical needs sectors.

### The Emergence of Impact Investing in India

India's BoP population, at over 800 million, is the largest in the world. This population lacks access to basic services in terms of energy, healthcare, education, water and sanitation. While government budgets have grown substantially to address some of these needs, it has been insufficient given the scale of the problem. Inefficient public delivery and expensive private sector options resulted in challenges of access and affordability.<sup>5</sup> On the other hand, this BoP population has a disposable income of more than US\$ 358 billion,<sup>6</sup> making the market opportunity unparalleled to any other country. Indian entrepreneurs responded to this opportunity with bottom-up innovations, developed for-profit, market solutions and business models, and applied them to local contexts, creating a dynamic entrepreneurial climate in impact sectors.

Capital for these enterprises was the big missing link. This spurred the emergence of home-grown investors such as Aavishkaar, who began fund raising and investing capital in these enterprises, as early as 2001. Around the same time, the idea to invest in sustainable businesses to deal with the challenge of inequitable development was finding acceptance in rest of the world and institutions such as Acumen Fund were raising capital in the US, to invest in similar ventures in developing countries such as India.

#### AAVISHKAAR

Aavishkaar launched its first fund in 2001 with an enterprise based development approach as its core. Today, Aavishkaar has US\$ 160 million under management and its taking the experience from India to South and South East Asia. Aavishkaar took 6 years to achieve its first closing as the Indian investors did not see impact enterprises as distinct from business as usual. Until February 2014, Aavishkaar has deployed over US\$ 90 million across more than 45 enterprises over the last 13 years.

#### ACUMEN

Acumen, founded in 2001, was the first foreign social venture fund to move into India. It was able to raise funds from US based investors much more easily through the venture philanthropy route. Acumen made its first impact investment in 2004 and opened its local office in India around 2005. By 2013, Acumen had deployed around US\$ 31.9 million across 26 enterprises in India. It has also deployed around US\$ 50 million in Pakistan, East Africa and West Africa.

<sup>5</sup>As per the Press Note on Poverty Estimates, 2011-12 released by Planning Commission, Government of India in July 2013, poverty declined in rural and urban areas. There has been an increase in monthly per capita consumption expenditures.

<sup>6</sup>Mckinsey Global Institute, Global Insight EIU

## Drivers to Impact Investing In India

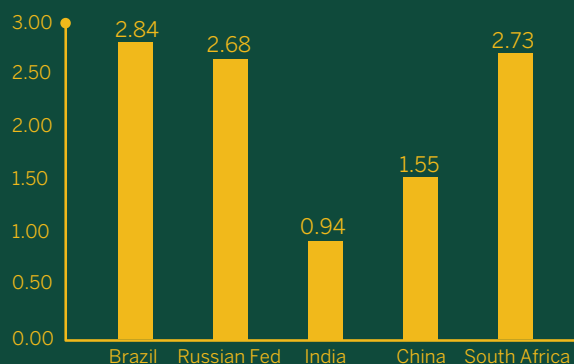
### Huge BoP population that lacks access to basic services:

India's vast BoP population faces enormous challenges in terms of livelihoods and access to basic needs, and presents the largest opportunity for impact capital globally. According to a World Bank estimate, 32.6% of the Indian population lives below the international poverty line of US\$ 1.25 per day and ~69% of the population lives on less than US\$ 2 per day.<sup>7</sup> The bottom 35% of the population constitutes the ultra-poor, who primarily depend on government welfare programs, subsidies and grants. Most impact investors invest predominantly in enterprises that cater to low-income communities with a per capita income in excess of US\$ 1.25 a day and are able to pay for essential services.

### Low public spending for social sectors:

The government is the largest provider of capital for social development initiatives in India. Government social spending in 2012-13 was around US\$ 100 billion.<sup>8</sup> While this is a significant amount, it is unable to meet the vast need at the BoP. In comparison to other BRICS<sup>9</sup> countries, India's public expenditure as a percentage of GDP is much lower (see Exhibit 1).<sup>10</sup> Inadequate allocation of funds and poor efficiency in service delivery also impact achievement of the country's development goals.<sup>11</sup>

Exhibit 1: ANNUAL AVERAGE PUBLIC HEALTH EXPENDITURE as % OF GDP (2004-09)



Source: World Bank

### Private sector participation in creating jobs and improving access to basic services:

In response to the unmet need, private sector players have emerged with market solutions to the access and affordability issues in basic services. These enterprises primarily cater to the BoP population and engage with them as producers, customers, employees or entrepreneurs and improve access to essential services. In some sectors, they compete with the government in the provision of basic services. In other sectors, they work with the government (through PPP). For instance, the National Skill Development Corporation (NSDC) was set up in partnership with the private sector with the objective of skilling around 500 million Indians by 2022.

### Emergence of talented fund managers:

The above factors gave rise to talented fund managers who saw the need for patient capital. They raised capital and directed it to impact enterprises. These fund managers sourced funds from Development Finance Institutions (DFIs) and Foundations, and provided them with an opportunity to invest returnable capital and to play a sector building role in India.

<sup>7</sup> World Bank 2010 | <sup>8</sup> Planning Commission, including State & Central Government spending | <sup>9</sup> BRICS is the acronym for five major emerging national economies: Brazil, Russia, India, China and South Africa | <sup>10</sup> World Bank.

<sup>11</sup> 'From Poverty to Empowerment: India's imperative for jobs, growth, and effective basic services' McKinsey, February 2014.



## Unique Factors of the India Impact Investing Story

In order to understand the key factors that drive impact investing in India, extensive interviews were conducted with impact investors, ecosystem enablers and entrepreneurs. This research draws strongly from Intellectap's previous research on the social enterprise space. Additionally, comprehensive analysis was conducted using investment data from various sources, and on the financial leverage created by impact capital. This analysis revealed four key characteristics that explain the unique India impact investing story: Innovations **Rooted in Local Context**; Investing that adopts an **Entrepreneur led Approach**; Ecosystem **Focused on Accountability**; and Impact Investors with the **Ability to Unlock Mainstream Capital**.

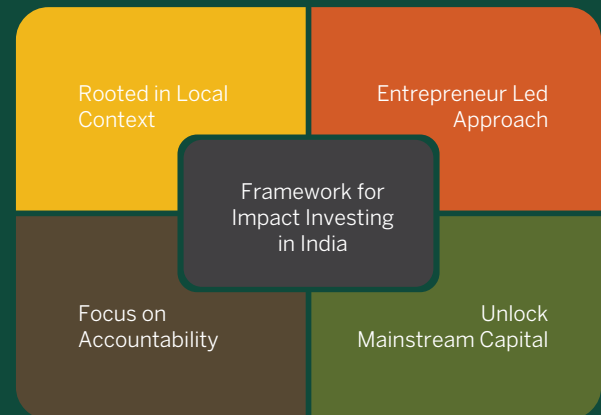
### Rooted in Local Context

Impact enterprises are focused on solutions for low-income communities. Deep understanding of the local context, and designing products and services that take into account the local sensibilities is critical for their success. Our research reveals that impact enterprises in India arise in response to demand by the local low-income population for good quality services and products to meet the challenges of everyday life. Entrepreneurs are faced with the challenge of building businesses to address the issues of access, affordability and quality. This results in the evolution of business models that are focused on bottom-up frugal innovations. In many instances, scale is achieved by replicating the business model across the length and breadth of the country while taking into account the regional and local context of each of these geographies. Over the years, the investment thesis of impact investors has emerged as one that backs entrepreneurs that have a greater chance of delivering within the local context.

### Entrepreneur led Approach

In India, the entrepreneur is at the center of the impact investing ecosystem, and the lens is one of enterprise sustainability. When making investment decisions, while social problems are important considerations, impact investors are guided primarily by the entrepreneurs' approach to building a scalable and sustainable business. Evidence of this shift is seen in the change in investment strategy over time from being sector specific to being sector agnostic, and the shift in the criteria for investment decision moving to specific qualities of the entrepreneur and his approach.

Exhibit 2: FRAMEWORK FOR IMPACT INVESTING IN INDIA



Source: Intellectap Analysis

### **Unlocking Mainstream Capital**

India occupies a unique position in its ability to use impact capital to unlock mainstream capital. Impact investors take pioneer risks and invest in early stage enterprises, working in difficult geographies. They provide patient capital, requisite technical assistance and work towards showcasing an enterprise's ability to be scalable and financially sustainable. This draws the attention of mainstream capital that is agnostic to the idea of impact, but is immensely attracted to the idea of scalable businesses with talented entrepreneurs. Additionally, the presence of the impact investor provides the mainstream investor a much needed sense of comfort and builds a partnership that is a unique Indian phenomenon.

This has been repeatedly demonstrated in the case of microfinance where impact investors showcased the success of the MFI model and helped in mainstreaming the sector. Impact investors have drawn from this experience when investing in other sectors, where the time taken to attract mainstream capital has significantly reduced. Mainstream VCs and PEs are investing as early as in the second round of funding, and at times, even in the first round of capital infusion in early stage enterprises.

### **Focus on Accountability**

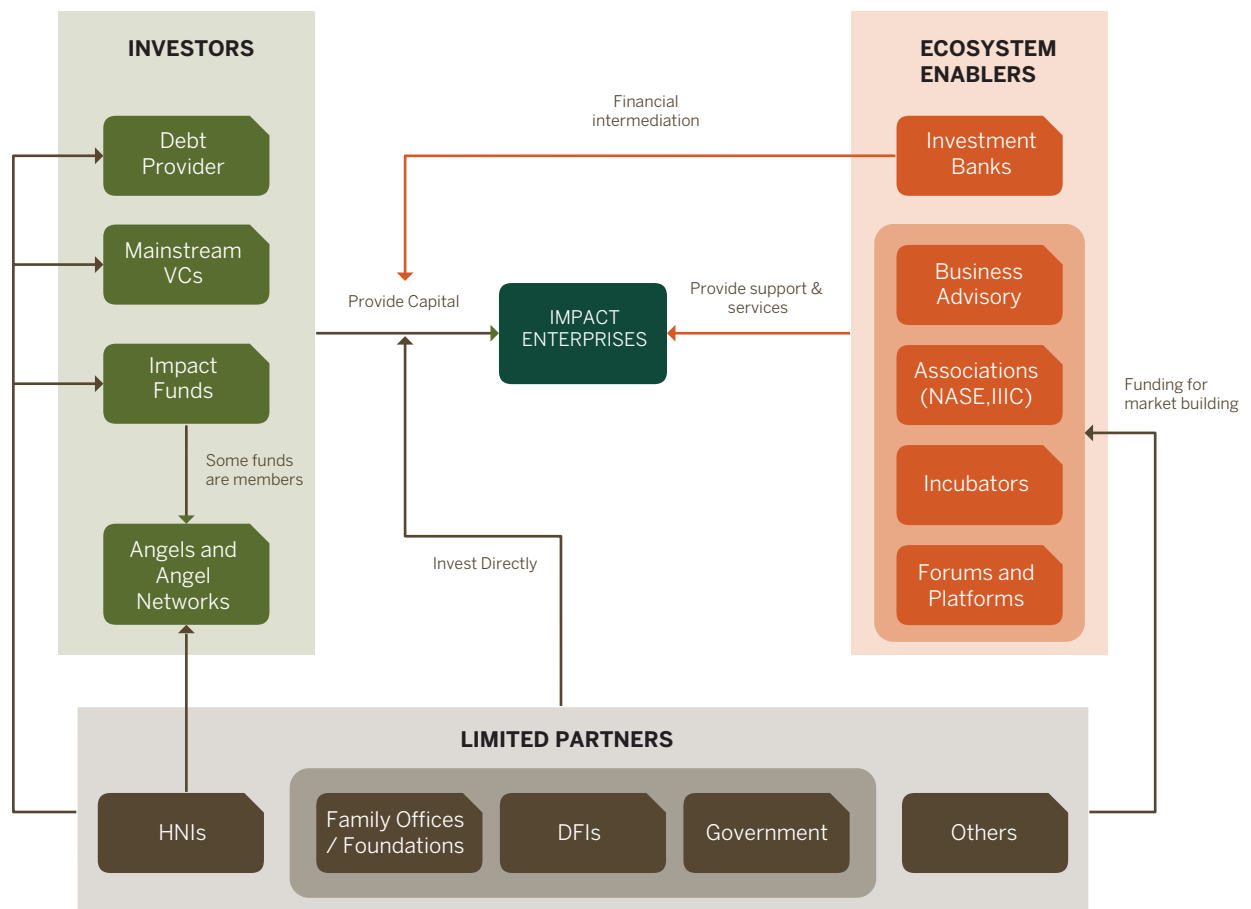
In India, there is a strong focus on accountability amongst impact investors and entrepreneurs. The emphasis on accounting for and ensuring that capital is well-spent could probably come from the value-for-money culture that is intrinsic to India. Some caution has also crept in post the microfinance crisis and there is an inherent desire to ensure transparency and accountability.

Impact investors report their outcomes in terms of impact and returns, thereby demonstrating the social leverage of impact capital. The formation of the National Association of Social Enterprises (NASE) and the Indian Impact Investors Council (IIIC) with the key objectives of creating and promoting a uniform code of conduct and being the industry representatives to engage with the government are significant steps that demonstrate the impact investing sector's focus on accountability.

## KEY STAKEHOLDERS IN THE INDIAN IMPACT INVESTING SECTOR

India's impact investing story is built on three broad activities – building market driven solutions to access and affordability issues; supporting and sustaining these enterprises through capital infusion; building networks of sector stakeholders and providing avenues for engagement with the government. Hence, there are three key stakeholder groups in India's impact investing ecosystem – the enterprises, impact investors and ecosystem enablers. With the focus on the enterprises and entrepreneurs, different types of support functions have emerged to meet enterprise needs for capital and capacity building. Each of these stakeholder groups have grown during the past decade, and continue to evolve. In the last few years, there has been significant movement in finding ways to improve linkages between them to leverage synergies and work together for the scale and sustainability of the enterprise. This report primarily focuses on the impact investors and adopts an investing lens to understanding the sector.

Exhibit 3: THE IMPACT INVESTING ECOSYSTEM IN INDIA



1. Other limited partners include Pension Funds, Sovereign Funds etc.

Source: Intellicap Analysis

# IMPACT ENTERPRISES

As per Intellectap's database of ~430 impact enterprises (includes 220 enterprises that have received impact investments)

**2005** BEGINNING OF EXPONENTIAL GROWTH IN EMERGENCE OF IMPACT ENTERPRISES



**35%** IMPACT ENTERPRISES IN INDIA HAVE PRESENCE IN MAHARASHTRA



**60%** IMPACT ENTERPRISES OPERATE IN AT LEAST ONE LOW-INCOME STATE

Bihar, Rajasthan, Chhattisgarh, Jharkhand, Madhya Pradesh, Odisha, Uttar Pradesh and West Bengal

**21%** IMPACT ENTERPRISES OPERATE IN THE FINANCIAL INCLUSION SECTOR



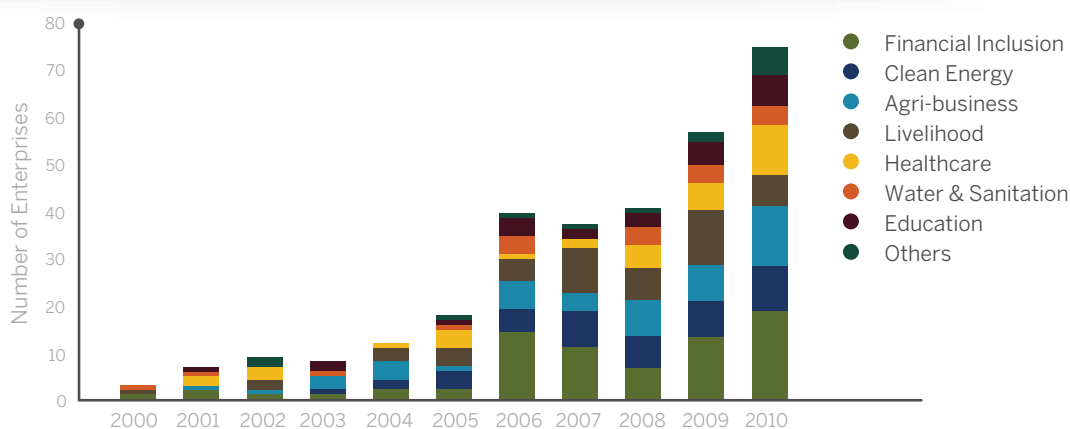
**45%** ENTERPRISES FROM THE CLEAN ENERGY, AGRI-BUSINESS AND LIVELIHOOD SECTORS



# IMPACT ENTERPRISES

**M**ost impact enterprises were either philanthropic in nature or had adopted the cooperative model until the 1990s. For-profit impact enterprises that provide rewards to risk taking entrepreneurs, emerged in 2000. Their numbers increased rapidly, and have seen exponential growth since 2005. Emerging data indicates that inception of new microfinance enterprises dropped dramatically post the 2010 crisis; the growth of other enterprises, however, seem to have more than made up for the dip.

Exhibit 4:  
EMERGENCE OF IMPACT  
ENTERPRISES IN INDIA



Source: Intelicap Analysis

1. Others include enterprise involved in Technology for Development and Affordable Housing

**Impact enterprises often base their business models on bottom-up frugal innovations<sup>12</sup> across critical needs<sup>13</sup> sectors. The movement to design and implement frugal innovations emerged from Southern and Western India, and has now grown to cover most regions in the country.** While impact enterprises are present across the country and many operate across multiple regions, they are still strongly represented in Southern India. The Western region (Maharashtra, Gujarat and Rajasthan) also hosts a large number of impact enterprises. Maharashtra is the leading state with 35% of all impact enterprises in the country having a presence there. This is primarily because MFIs had a strong presence in these regions of the country, and this contributed to the development of some basic ecosystem constituents such as the availability of a network of agents who understood impact and the local ethos, and professionals who were clued in to the concept of impact with business.

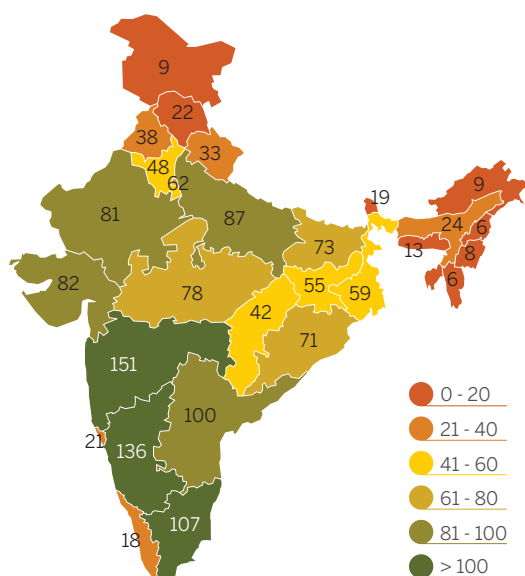
<sup>12</sup> Frugal innovations is a term used to describe innovation that decrease costs by creating economical solutions to deliver better quality or formerly non-existent public services.

<sup>13</sup> Critical needs sectors have a direct impact on the quality of life of individuals at the BoP. These include agriculture, education, financial inclusion, energy, healthcare, livelihood development and water & sanitation.

Low-income states in North India are gaining special attention from DFIs, ecosystem builders and specific impact investors. The presence of a large BoP population and talented entrepreneurs makes them high potential states for achieving impact and generating returns. They are seen as the new high opportunity states for impact investing in the country.

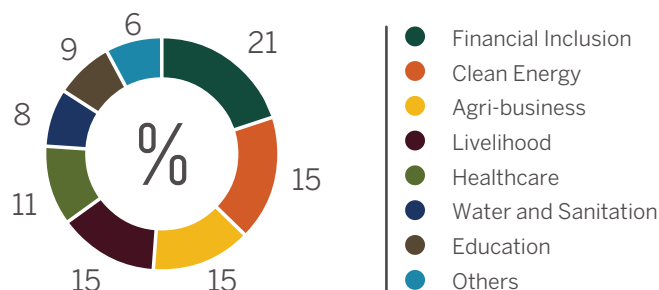
**Exhibit 5: DISTRIBUTION OF IMPACT ENTERPRISE**

DISTRIBUTION OF IMPACT ENTERPRISE ACROSS STATES



Source: Intellecap Analysis, Other Reliable Public Source

DISTRIBUTION OF IMPACT ENTERPRISE ACROSS SECTORS



1. Others include enterprise involved in Technology for Development and Affordable Housing

Impact enterprises have yet to make any significant presence in the North Eastern states, Himachal Pradesh and Jammu & Kashmir as low population density, poor law and order situation, and inefficient infrastructure make these geographies difficult to reach. Small steps are being taken to strengthen and increase the number of enterprises operating in these remote regions.

**Impact enterprises do not identify with the “social” tag, and see themselves as “regular” or mainstream businesses.** In India, there is no specific law under which impact enterprises must register. Hence, the choice of whether enterprises want to be labeled as ‘social’ rests with the entrepreneur. It has been observed that impact entrepreneurs, who are exposed to the ‘impact/social enterprise’ lexicon either due to their prior exposure (through their educational or professional background) or through networks and forums, generally identify with the term and explicitly show an impact thesis in their business. On the other hand, entrepreneurs who are not familiar with the term prefer to identify their enterprises as business as usual firms that are responding to a market opportunity at the BoP. For them, creating impact is an integral part of their enterprise’s business model.

### 3S SARAPLAST - BUSINESS AS USUAL

3S Saraplast is a Pune based enterprise that leases out and maintains toilets in unserved sites such as events and construction sites. It has also been working to pilot a model that could be used in urban slums. In 2012, it provided access to toilets to over 200,000 people in India, of which 130,000 were first-time toilet users, and 50,000 were women and young girls. A Sankalp 2010 award winner for Health & Sanitation, the firm has been recognized nationally and internationally for its work. Portable Sanitation Association International (PSAI) nominated Rajeev Kher, Founder and Managing Director – 3S Saraplast, as the 1st Indian/Asian member of their Board of Directors (2010-2013).

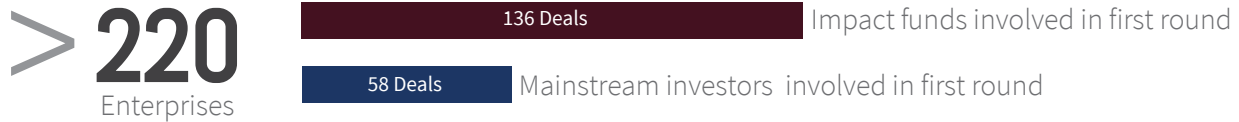
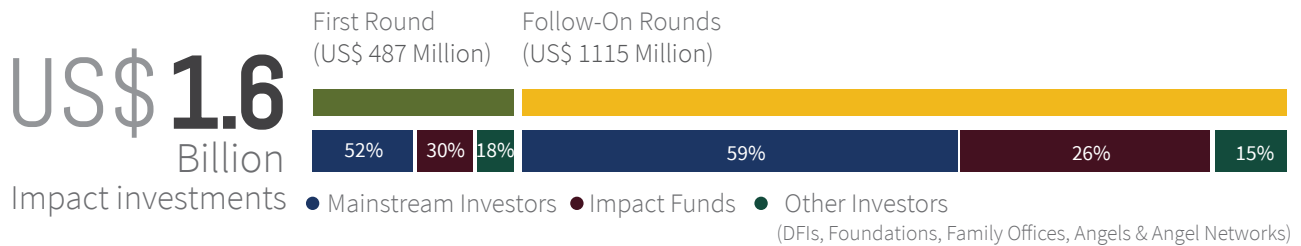
Interestingly, despite tangible impact, recognition and accolades, Rajeev Kher shares, “We see ourselves as a regular for-profit business.” He elaborates, “One of the reasons I began 3S Saraplast was because I wanted to provide access to clean toilets, but I am perturbed by the general reaction to the fact that I generate profit from it. The fact is that a majority of the impact investors do not have a charitable fund and they expect returns. Investors want to see you deliver on promises - be it profits, scale and/or revenue.”

**Lack of capital and skilled human resources is a key growth constraint for impact enterprises.** Most of the impact enterprises face a financial and human resource crunch. There are limited financial instruments available to impact enterprises. Most of the impact investor capital (primarily equity) is targeted at sustainable and scalable enterprises. There is a lack of debt funding for early and growth stage enterprises due to insufficient collateral. Access to skilled human resources has been identified by impact enterprises as a bottleneck for growth. This is due to the lack of qualified and skilled professionals in Tier II and III cities and rural areas, and the inability of most impact enterprises to afford highly qualified personnel. Enterprises are trying to overcome talent shortages through smart hiring (interns, consultants) and training local communities.<sup>14</sup>

<sup>14</sup> Understanding Human Resource Challenges in the Indian Social Enterprise Sector, Intellectap, 2012

# IMPACT INVESTORS

Impact Investment Trends



**~60%** of Total Impact INVESTMENTS made in **TOP 15** enterprises

Top 3 Sectors





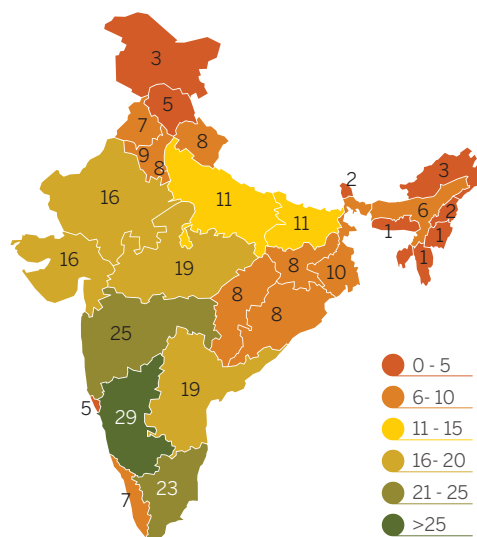
# IMPACT INVESTORS

Impact investors first appeared in India in 2001 seeking investments in enterprises focused on BoP markets. However, they were soon eclipsed by Microfinance Investment Vehicles (MIVs), which emerged later, but had significantly larger fund sizes given the rapid growth in the MFI sector. While few impact investors like Aavishkaar chose to diversify and added microfinance funds to their impact investment portfolio, others such as Acumen maintained their focus on impact investments. After the MFI crisis of 2010, the MFI focused funds also looked at impact investing as a serious alternative.

## Impact investors' portfolios are spread across the country, with some regional skew.

An analysis of the portfolios of key impact investors indicates that they back enterprises across different parts of India. However, as with the enterprise activity, the Western and Southern regions of India have seen significantly higher impact investing activity. Impact investors have largely invested in enterprises in just three states - Maharashtra, Tamil Nadu and Karnataka, while states in East and North East India has seen very few investments. There are only two funds which have a stated region focus - Pragati Fund, which invests in high-growth SMEs in 9 Northern and Central Indian states, and the Samridhi Fund (formed by DFID and SIDBI / SVCL) which focuses on 8 low-income states in Northern and Eastern India.<sup>15</sup>

Exhibit 6: IMPACT INVESTORS' PORTFOLIO ENTERPRISES - GEOGRAPHICAL PRESENCE



1. Analysis of 5 impact investor portfolios (Aavishkaar, Acumen fund, Lok Capital, Omidyar, Caspian)

Source: Intellectap Analysis, VCC Edge, Venture Intelligence, Reliable Published Sources

**Impact investors bridge the funding gap at the seed or ideation stage.** Their support to enterprises comes in at a critical stage in the life cycle of enterprises, often by being the first investors. They bolster the ability of the enterprise to succeed and signal the investibility of these enterprises to mainstream investors.

<sup>15</sup> Samridhi Fund invests in Bihar, Uttar Pradesh, Madhya Pradesh, Odisha, Chhattisgarh, Jharkhand, Rajasthan and West Bengal. Pragati Fund invests in Rajasthan, Madhya Pradesh, Chhattisgarh, Uttarakhand, Uttar Pradesh, Bihar, Jharkhand, West Bengal and Odisha.

**Impact investors mainly raise funds from foreign investors (DFIs, foundations, HNIs, pension funds, and commercial investors), and domestic sources of funds are negligible.** Only a few impact funds have attracted domestic capital. With most domestic investors clearly distinguishing between impact and mainstream, and traditionally preferring to support philanthropy for doing social good, there has been a limited interest among them to make impact investments. However, there have been a few impact funds that have successfully managed to raise domestic capital. Omnivore Partners is one such fund that raised capital entirely from domestic investors.

The availability of domestic capital is likely to increase with the launch of the India Inclusive Innovation Fund (IIIF) by the National Innovation Council (NInC) and the Ministry of Micro, Small and Medium Enterprises, Government of India (GoI) in January 2014. The fund has an initial corpus of INR 5 billion (~ US\$ 83.3 million), of which the Indian government plans to contribute 20%, and the balance is to be raised from public sector banks, financial institutions, insurance companies and DFIs. IIIF's eventual goal is to expand the corpus to INR 50 billion (~US\$ 0.83 billion) within the next 2 years.

#### OMNIVORE PARTNERS – IMPACT INVESTING WITH DOMESTIC CAPITAL

Omnivore Partners invests in agriculture and food technology companies across India. The fund aims to fill the capital gap for early stage enterprises in supply chain, agriculture mechanization, and cloud based solutions leading to market development in the agriculture sector. Before Omnivore started its operations in 2010, there were few investments in early stage enterprises in these sub-sectors. Omnivore has been able to attract mainstream domestic capital from various marquee investors. Godrej Agrovet Ltd is the anchor investor of the fund. In addition, it has raised capital from private and public sector investors in India. The fund firmly believes that it will create private goods with private capital and not enter areas where public money is required.

**Most impact investors adopt the venture approach to support enterprises in achieving scale and sustainability.** Although impact investors in India started out with diverse philosophies and ideologies, in the past few years, there has been a greater consensus on their investment approach. Most investors are seeking to achieve both, impact and financial returns by investing in business models that have the potential to be sustainable. Given the Indian context, scale is often seen as being critical to achieving impact. To this end, a majority of impact investors in India emulate the same approach as that of mainstream venture capital firms, but extend it to investing in enterprises working in under developed regions or sectors while catering to low-income communities.

## Defining Impact Investing in India

The business as usual approach of impact enterprises in pursuing frugal innovations to meet the demand for access and affordability from low-income customers combined with the venture approach adopted by impact investors in India requires a sharper definition for the impact investing sector in India. The yet to be registered industry organization, the Indian Impact Investors Council (IIIC) has a working definition that represents the thought process and investing philosophy of a majority of impact investors in India.

IIIC working definition, December 2013

Impact investment is a for-profit enterprise that:

- Serves underserved beneficiaries who are producers, consumers, suppliers, employees or users or entrepreneurs; underserved beneficiaries should comprise majority (two-third or above) of the beneficiary base
- Willing to carry out third party reporting/assessment in conjunction with investors
- Follows all compliance and regulatory norms as prescribed by the authorities
- Demonstrates high standards of corporate governance and consumer protection

An impact investor has:

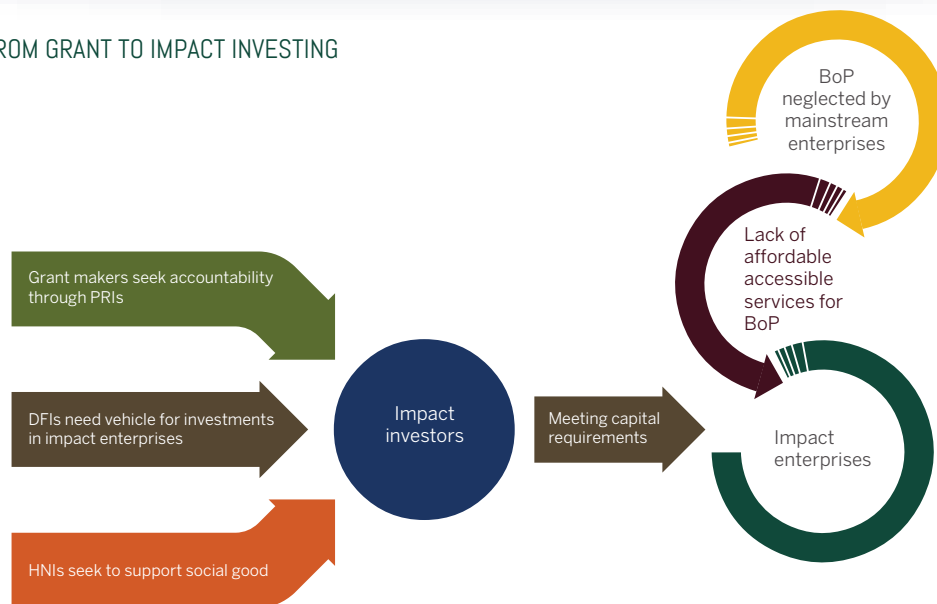
- Super-majority (two-thirds or above) of total invested capital in impact investments
- Public commitment to and reporting of impact assessment and measurement
- Super-majority (two-thirds or above) of capital deployed via the venture approach to investing

## DOMINANT APPROACH OF IMPACT INVESTORS

Impact funds in India largely pursue a venture approach to investing. This investing approach has emerged as the dominant one mainly due to the uniqueness of the Indian context, wherein entrepreneurs building for-profit enterprises have been at the forefront of addressing market gaps in critical needs sectors.

**Given the characteristics of impact enterprise activity in the country, a number of foundations and family offices have also sought to adapt their own approach of pure grant making to one of allocating a portion of their funds for investing in sustainable enterprise models.** One way in which grant makers have sought to adapt their strategies is by pursuing Program Related Investments (PRIs) to deploy impact capital either directly in enterprises or through impact funds. According to the Rockefeller Foundation, PRIs<sup>16</sup> help bring discipline and efficiency to the enterprises that foundations support, enabling them to attract follow-on capital from mainstream commercial sources and contribute to enterprise sustainability and impact. DFIs from Europe have also emerged over the past decade as prominent investors, initially in the microfinance sector, and later as Limited Partners (LP) for a number of impact funds. Impact investing has also been supported by a few Indian High Networth Individuals (HNIs) who have a desire to support social good.

Exhibit 7: SHIFT FROM GRANT TO IMPACT INVESTING



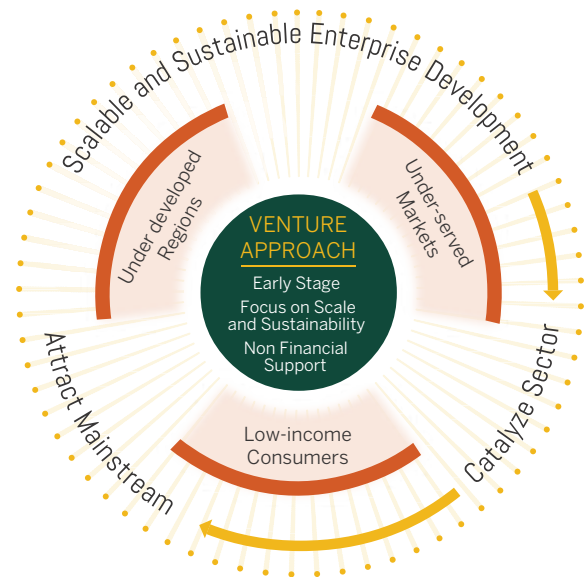
Source: Intellecap Analysis

<sup>16</sup> Program Related Investments, The Rockefeller Foundation 2014

## Venture Approach

**The Venture Approach is an investing thesis that involves making investments at an early stage in for-profit enterprises that operate in underserved markets, critical needs sectors, and engage with low-income consumers.** These enterprises demonstrate the promise of scale and financial sustainability. Through their investments in such enterprises, impact investors are able to showcase the investible nature of these businesses and catalyze mainstreaming of the sectors in which they operate.

Exhibit 8: VENTURE APPROACH



Source: Intellectap Analysis

Venture approach is characterized by:

- Early Stage Investing and Pioneer Risk: 33% of deals in impact enterprises were at the seed stage
- Scale and Sustainability: 30% of enterprises with first round of funding before 2011 received at least 2 rounds of follow-on investments
- Providing non-financial support for enterprises operating in under developed regions and markets

## Early Stage Investing and Pioneer Risk

Although mainstream venture capitalists also bear the risk of investing in a new venture, impact investors' risk is further magnified as they often take on pioneer risk. This emanates from investing in a business engaging low-income communities through a unique business model, new markets, or untapped regions.

**Business model:** Impact investors in India invest in a wide range of business models with varying potential for generating financial returns (see Exhibit 9). While a few impact investors, in the early years, focused on supporting enterprises across the spectrum, most impact funds today are primarily channelling capital towards scalable and financially sustainable business models.

## EVOLUTION IN INVESTING APPROACH – AAVISHKAAR

Aavishkaar, during its early years, started investing in entrepreneurs that were building good enterprises. In 2006, Aavishkaar reviewed its strategy and decided to add potential to scale as a key investing criterion. While some of the early investments that Aavishkaar made were not scalable, but generated significant returns and exits (e.g. Rangсутra and SERVALS Automation), Aavishkaar decided not to invest in those enterprises that were very local and not scalable. Aavishkaar has continued to focus on taking risks and investing in very early stage enterprises, but this has created a gap for funding of small, sustainable and impactful enterprises.

Exhibit 9:  
IMPACT ENTERPRISE  
BUSINESS MODELS



Source: Intellectap Analysis

As most impact funds currently focus on investments in scalable and sustainable enterprises, there is a greater need and scope for impact capital (grant and hybrid financing) that can take on the pioneer risk of supporting models that have a deep impact, but might not be highly scalable.

### Hybrid Impact Enterprises in India

As per the corporate and tax related laws in India, organizations wishing to adopt a hybrid structure must necessarily set up two distinct legal entities that are for-profit and not-for-profit structures. Some impact enterprises have chosen to be conceptualized as hybrid, while a few others have considered transforming from not-for-profits to hybrids to provide greater opportunities for some of their initiatives. Most agree that it is not easy to balance both structures. Globally, however, there are several hybrid legal structures available in US (Low-profit Limited Liability Company - L3C, Benefit Corporations / Flexible Purpose Corporation) as well as in the UK (e.g. Community Interest Companies - CIC), which could be studied and adopted in India.

**Underserved market:** Impact enterprises operate in remote and underserved geographies, where markets are either absent or underdeveloped. The impact investor invariably supports the first formal enterprise of its kind in these regions and is faced with all the uncertainties of taking on this pioneer role. These uncertainties pertain to customer education to drive behavior change, availability of skilled talent, and enabling infrastructure.

Unaddressed impact areas: The Dell Foundation’s support for urban microfinance in 2006 and Omnivore’s investment in Arohan Foods, a pork processor in Assam, are examples of pioneer risks taken by funds investing in enterprises resolving unaddressed gaps in the market. Other investors such as Upaya Social Ventures have focused on investing in enterprises working with the ultra-poor, which may not always be scalable, but have a strong focus on local impact.

“ We prefer investing in businesses that can scale and reach thousands of ultra-poor households. But, we are open to supporting a business that may not ever achieve significant scale, but is still a solid idea and an opportunity to generate employment and economic activity in an area that would otherwise not receive any attention at all.

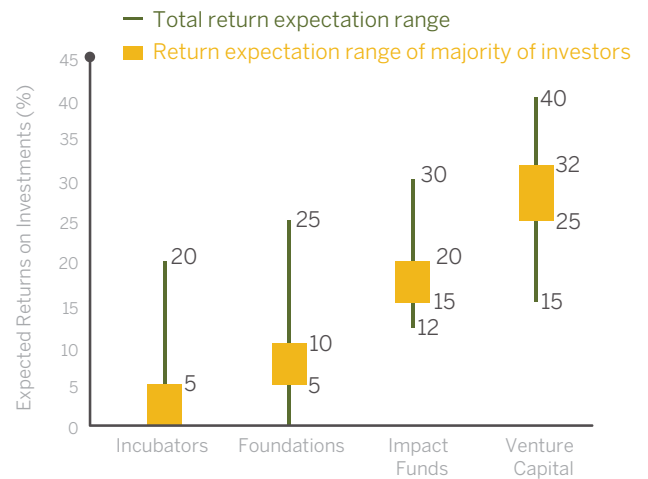
**Steve Schwartz**

**Upaya Social Ventures**

**The risks taken by impact investors are often magnified by the additional geographical, consumer, and market risks but the return benchmarks for mainstream VCs is somewhat higher than for impact funds.**<sup>17</sup> There are, however, some impact funds whose return expectations largely overlap with that of mainstream VC funds.

Possible explanation for this gap: The traditional risk return continuum works well for efficient markets. However, impact investing focuses on sectors or regions with inefficient or poorly developed markets, and in critical needs sectors. Enterprises and business models in these regions and sectors require a longer time horizon to succeed, which has implications for returns. Impact funds have a role in market development and catalyzing further investments to these markets. These positive externalities of impact investments are not properly explained by a financial rate of return. Instead, they would be adequately reflected in a measurement of impact returns captured at an enterprise as well as a sector level in terms of number of people affected, environmental impact, or capacity to leverage other forms of capital, among others. While impact investors have demonstrated through the few exits that it is possible to generate significant returns at an enterprise level, portfolio level returns comparable to venture capital currently remains a challenge.

Exhibit 10: COMPARISON OF EXPECTED RETURNS



Source: Intellect Analysis, Interactions with Industry Players

<sup>17</sup> Based on interviews with impact investors, mainstream VCs, incubators and foundations

## Scale and Sustainability

**Most impact investors in India emphasize the need for an enterprise to be sustainable, scalable and deliver market returns, with impact being generated due to the very nature of the sectors and business models in which they invest.** This is a distinctive feature of the impact investing industry in India (see Exhibit 11) and underscores the shift away from a binary approach – “impact first” versus “finance first” – applied to enterprises and investors wherein the process of creating impact would imply some sacrifice of commercial viability.

Exhibit 11: INDIAN IMPACT THESIS - SCALE AND SUSTAINABILITY

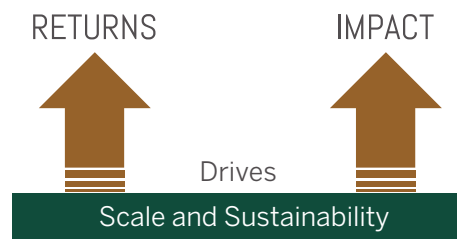
### TRADITIONAL THESIS

- Trade off between impact and returns
- Classification of investors as “impact first” or “finance first”



### INDIA IMPACT THESIS

- Impact thesis is inbuilt in the business model
- Most investors look for scale and sustainability



Source: Intellectap Analysis, Interactions with Industry Players

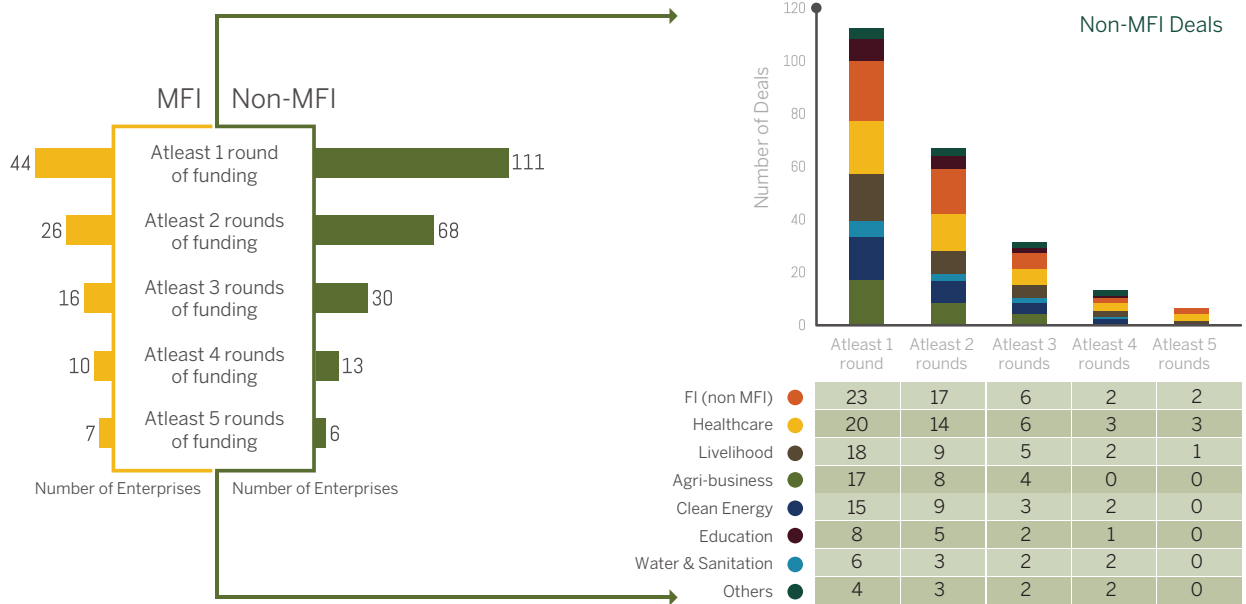
**Follow on investments by mainstream investors is a good proxy indicator of an enterprise’s potential to scale.** This is because mainstream investors only invest in enterprises that have the ability to scale and generate profits in the long term. Follow-on investments also reflect the investors’ confidence in the ability of the firm to generate positive cash-flows and be financially sustainable. While the MFI sector has led the other sectors in terms of receiving multiple rounds of investments, there is a significant increase in follow-on funding for enterprises in other sectors too (see exhibit 12).

“ We very strongly correlate impact with scale. For business models and enterprises to succeed, their impact has to be at a large scale. Moreover, because most of these models are new, we have to prove that they are not location specific and work elsewhere too.

**Vikas Raj**  
**Venture Lab, ACCION**



Exhibit 12: INVESTING FOR SCALE



1. Only firms obtaining first round of investment before 2011 were considered for this analysis  
 2. Others include affordable housing and technology for development

Source: Intelicap Analysis, VCC Edge, Venture Intelligence

### Non-Financial Support

**Investors support impact enterprises in strengthening the business model, setting up internal processes, providing the enterprise with access to networks, and establishing effective governance structures.** They also help their investees develop marketing and outreach programs, hire the right senior talent and assist with external resources (in the form of mentors or fellows) to support the organization and establish processes. Additionally, investors provide enterprises with a platform to network with other organizations at a national and global scale, which helps them realize their growth plans. In most ways, this non-financial support is similar to that provided by mainstream venture capitalists, although the intensity could vary.

“responsAbility has a TA facility that has helped us bring on board an expert from the sanitation industry. The investor bears about 75% of this cost and we contribute 25%. So we now have a COO who is one of the leading sanitation experts in the country. This additional bandwidth and expertise will help us tremendously in our growth.

**Rajeev Kher**

**3S Saraplast**

# Venture approach-led impact investing by the Michael & Susan Dell Foundation

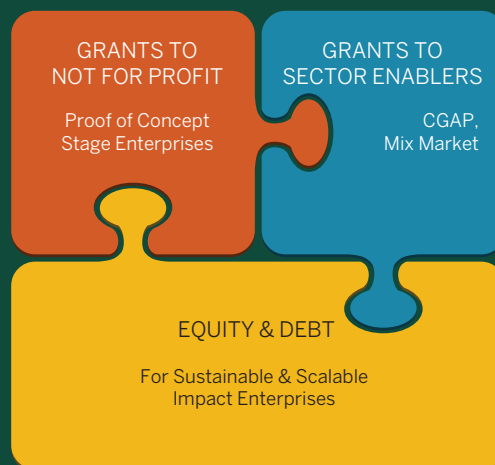
**T**he Michael & Susan Dell Foundation focuses on improving the lives of children living in urban poverty through education, childhood health and family economic stability. Primarily a grant making organization, in India the Foundation started making impact investments in 2006.

The Foundation incubated a unique market-development approach in India. It adopted a three-pronged approach to building markets and employed several tools from the Foundation’s funding toolkit: impact investments to build enterprises, grants to not-for-profits and grants for sector enablers.

The Foundation’s three-pronged approach was incubated in the urban microfinance space. Geeta Goel, Director of Mission Investing at the Dell Family Foundation explains, “In 2006, there were hardly any MFIs providing credit to the urban poor and the market space was regarded as high risk. We believed that we could provide the early-stage risk capital to showcase the scalable nature of the urban microfinance market. Since microfinance was primarily a market driven activity, we did not want to distort the market by providing grant support to certain institutions, thereby creating an unfair advantage.” Between 2006 and 2011, the Foundation has invested around US\$ 12 million in eight urban focused MFIs that have collectively impacted more than 1.5 million people. By 2009-10, the urban microfinance market was well established, and was attracting interest from commercial investors. Since 2009, the Foundation used impact investing to catalyze growth in other sectors beyond MFIs.

In order to transfer the learning from this incubation in India, the Foundation created a global function to steer its impact investments in January 2013. That same year, the Foundation invested in a US based start-up education technology venture to help catalyze markets for providing appropriate, student level data tools in the hands of teachers and school administrators.

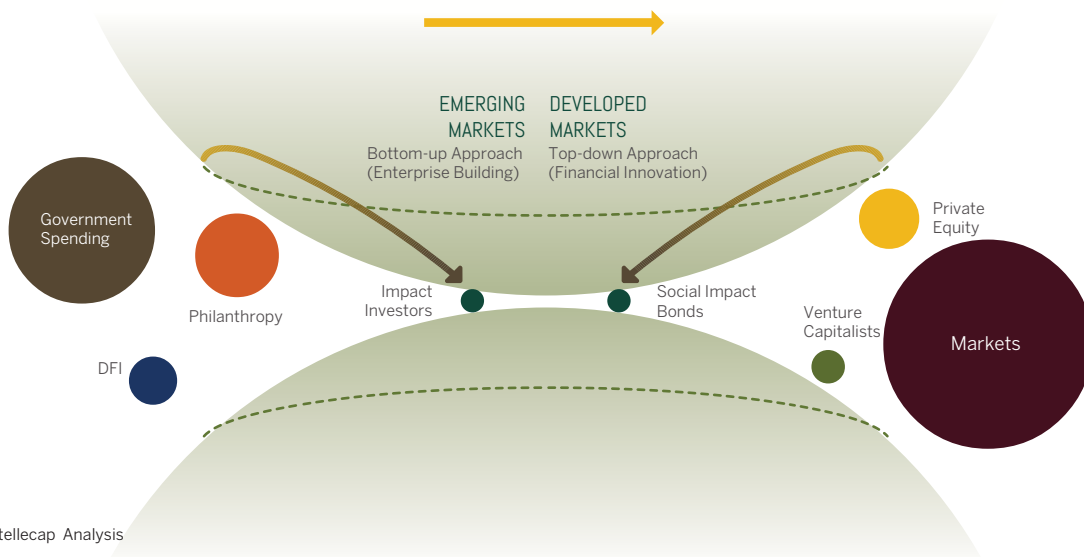
Exhibit 13: MARKET BUILDING APPROACH



## Catalytic Effect of Impact Funds

**Impact investors support enterprises by acting as a bridge between the government and philanthropic capital, and the financial markets.** In order to understand the catalytic role of impact funds, it is important to visualize a broader canvas of actors that provide capital with a whole range of economic, social or purely financial objectives (see Exhibit 14). Governments and philanthropic organizations allocate large sums of money towards the goal of generating significant positive social and environmental outcomes. Between them, they support multiple welfare programs, not-for-profits and hybrid models with an expectation that their initiatives will create high economic and social returns. At the other end are financial markets, which have the largest pool of investible capital and are focused on investing to realize the highest possible financial returns.

Exhibit 14: BRIDGING THE GAP BETWEEN GRANT MAKERS AND PUBLIC MARKETS



Source: Intellectap Analysis

By supporting early stage enterprises and showcasing the viability of impact enterprise business models, impact funds play a catalytic role in attracting mainstream money to address access and affordability issues in several critical needs sectors (refer to section 'Stages in Achieving the Catalytic Objective'). With the private sector playing a more prominent role, the government and philanthropic organizations can focus their resources on addressing those social and environmental challenges that are very important and also need their support.

### Stages in Achieving the Catalytic Objective

**Impact investors play an important role in demystifying the business model risks of impact enterprises for mainstream investors. They signal enterprise and sector investibility through co-investments, before fully exiting from them.**

### Stage I - Deploying early stage risk capital:

- Take the pioneer risk associated with investing in high impact sectors, under developed regions and innovative business models
- Support sector or market development by attracting collaborators who can provide non-financial support in the form of capacity building, financing, and logistical support to stimulate development of a functioning market

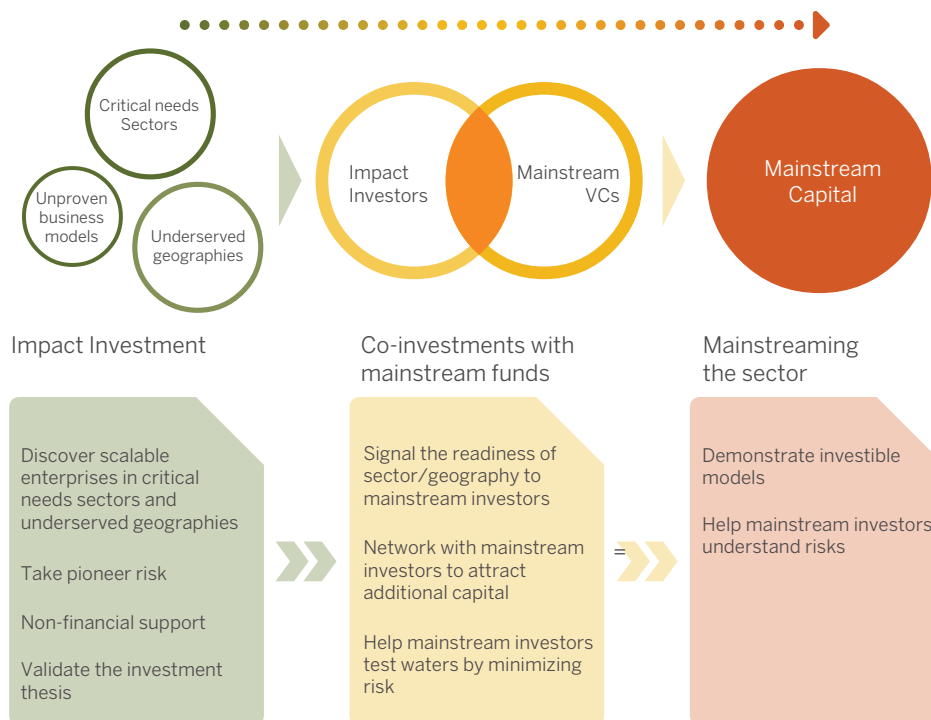
### Stage II - Co-investing with mainstream funds:

- Signal enterprise readiness by co-investing with mainstream investors
- Help mainstream investors understand risk, and thereby, reduce sector related risk perception by co-investing with them
- Continue to provide capital through co-investments

### Stage III - Mainstreaming the sector:

- Prove the success of impact enterprises and sectors by demonstrating investible models
- Reduce perceived high risk nature of these impact sectors, and showcase value proposition through appropriate enterprise valuation to draw mainstream investors

Exhibit 15: INDIAN IMPACT THESIS - CATALYTIC EFFECT



Source: Intellectap Analysis

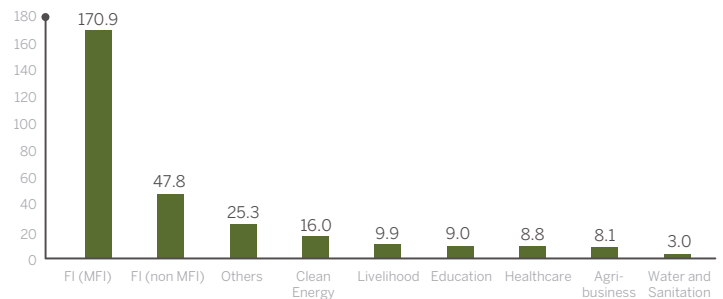
## Stage I: Impact investments

**Deal sourcing:** The pipeline for scalable and sustainable enterprises in the critical needs sectors and under-served geographies is still small given the quantum of impact capital available with investors. Impact funds invest significant time in sourcing enterprises, many of which have operations in Tier II or Tier III cities and rural areas. The enabling ecosystem in India has also evolved to partly address this gap through convening platforms such as Sankalp Forum, where early stage businesses and investors can make connections. While impact focused incubators have also supported several early stage impact enterprises, their efficacy in providing deal opportunities for investors is still low. Most investors continue to seek investible opportunities across the country.

**Investing with a long time horizon:** Business models in impact sectors often have a long gestation period for realizing success. Impact funds with their longer average fund lives (sometimes 10 years or more) are patient and give their investees time to grow and break even.

With over 50% of the 220+ enterprises receiving their first round of funding only in the last three years, it is too early to comment on the patience shown by investors. Impact investors have continued to stay invested and infused a further US\$ 217 million in follow-on capital across 53 impact enterprises before any mainstream capital was even invested in them. A few impact investors also provide debt capital, which helps enterprises maintain financial viability through the early phase of their existence.

Exhibit 16: FOLLOW-ON INVESTMENTS BY IMPACT INVESTORS (in US\$ million)



1. Co-investment of impact investors with mainstream investors in follow-on deals is excluded for analysis  
Source: Intelicap Analysis, VCC Edge, Venture Intelligence

**Transforming risk perceptions:** Impact investors counter the perception of very high risk associated with impact enterprises and sectors among mainstream investors. With most impact enterprises requiring longer gestation periods to realize success in their business models, investors wait through the challenging period of early stage enterprises and support them as they drive towards scale. Mainstream investors are then able to invest at later stages in the enterprise growth cycle.

“ Apart from financial support, the fact that an impact investor has done due diligence and made an investment provides credibility and a stamp of approval. They bring explicit connectors, but just the validation of having them on board helps us.

**Steve Hardgrave, Varthana**

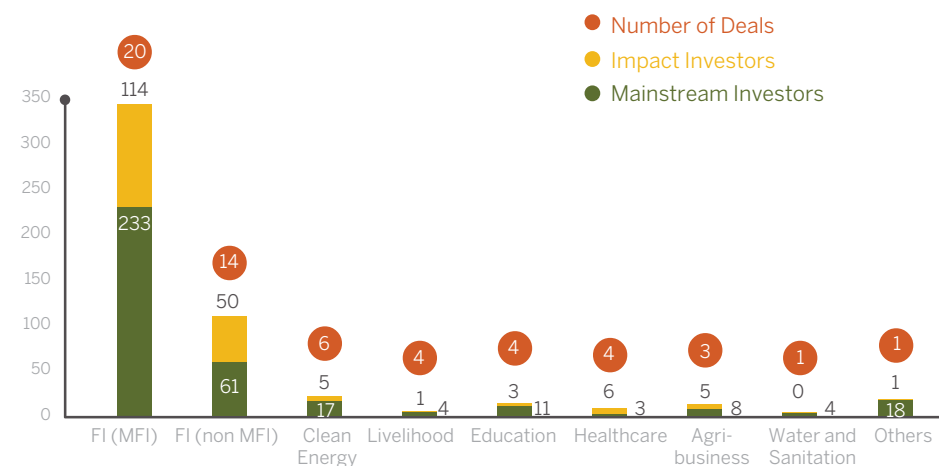
“ There is a need to re-price the risk in impact sectors. By playing a catalytic role we can demonstrate that there are high quality and scalable assets in the (impact) sectors at smaller ticket sizes, which require some hand holding and time.

**Thomas Hyland, Aspada Advisors**

## Stage II: Co-investments with mainstream investors

Secondary sale of equity to mainstream investors is one of the key measures of success for impact investors. Many impact funds start engaging with mainstream investors very early on in the investment life cycle of the enterprise. Impact investors have so far co-invested US\$ 185 million with mainstream investors in impact enterprises.

Exhibit 17: CO-INVESTMENT WITH MAINSTREAM INVESTORS (US\$ million)



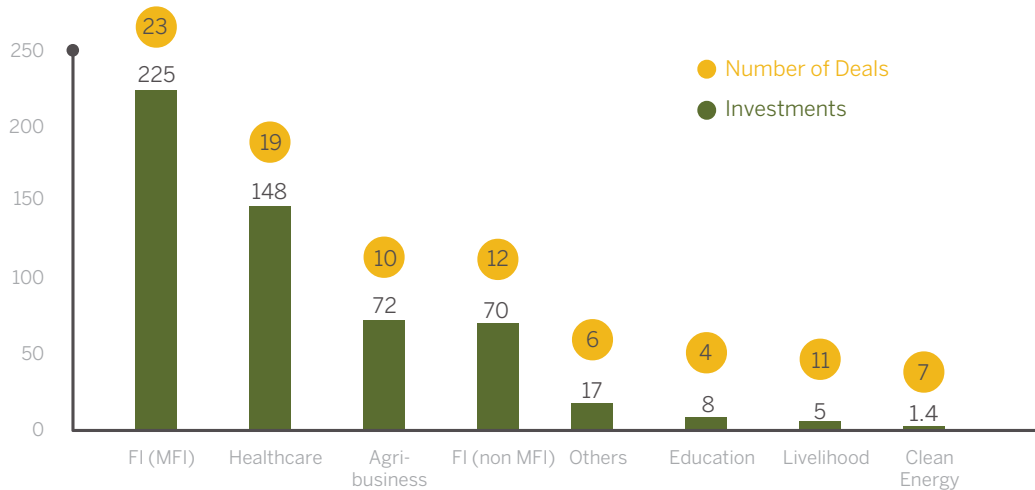
Source: Intellect Analysis, VCC Edge, Venture Intelligence

The MFI sector presents the clearest examples of this form of co-investing with mainstream investors. Until 2006, only 5% of the deals in MFIs involved mainstream investors. These investments, however, increased exponentially after a few co-investment deals with impact investors were made in SKS (Unitus Equity Fund I and SIDBI in 2006, Unitus Equity Fund I, Odyssey Cap, Sequoia Capital, and Kismet Capital in 2007), Spandana (J M Capital and Lok Capital) and Share Microfinance (Legatum and Aavishkaar Goodwell Fund I). Impact investors along with their co-investment partners have cumulatively invested around US\$ 350 million through 20 deals in MFIs (see Exhibit 17). The proportion of funds invested by impact investors in these deals is likely to be lower than that by mainstream investors.

## Stage III: Mainstreaming the sector

Impact investors achieve this goal by attracting mainstream capital to their investee enterprises. They demystify risks associated with critical needs sectors to mainstream investors by making the initial investments. It has been observed that once impact investors enter a sector, mainstream investors not only make follow-on deals, but also invest in the first round of funding in other enterprises in the sector. Finally, the catalytic effect is demonstrated when impact enterprises attract pure mainstream capital (without co-investments from impact investors). In India, the impact investing sector is likely to achieve this objective in a few sectors.

Exhibit 18: IMPACT DEALS WITH ONLY MAINSTREAM CAPITAL (US\$ million)



Source: Intelicap Analysis, VCC Edge, Venture Intelligence

The MFI sector alone has been able to attract US\$ 225 million in follow-on capital involving only mainstream PE and VC investors in later rounds, indicating the sector’s ability to attract mainstream capital without the support of impact funds. Cumulatively, the MFI sector saw total investments of US\$ 458 million from mainstream VC and PE investors in first round and follow-on deals. Of this, US\$ 412 million was in follow-on rounds alone. SKS Microfinance was publicly listed in July 2010 on the Bombay Stock Exchange and went on to raise more than US\$ 160 million through public markets. The recent investment of more than US\$ 50 million in Janalakshmi in 2013 by mainstream investors like Morgan Stanley Private Equity Asia, Tata Capital, and QRG Enterprises along with existing investors like Citi Venture Capital, India Financial Inclusion Fund, and Vallabh Bhanshal<sup>18</sup> further reinforces the trend of pure mainstream capital investing in MFIs today.

Other sectors are yet to catch up with the MFI sector as they have collectively raised only US\$ 449 million in mainstream capital since 2000. Two other sectors that have raised sizable amounts of capital from mainstream investors are Financial Inclusion (non-MFI) and Healthcare.

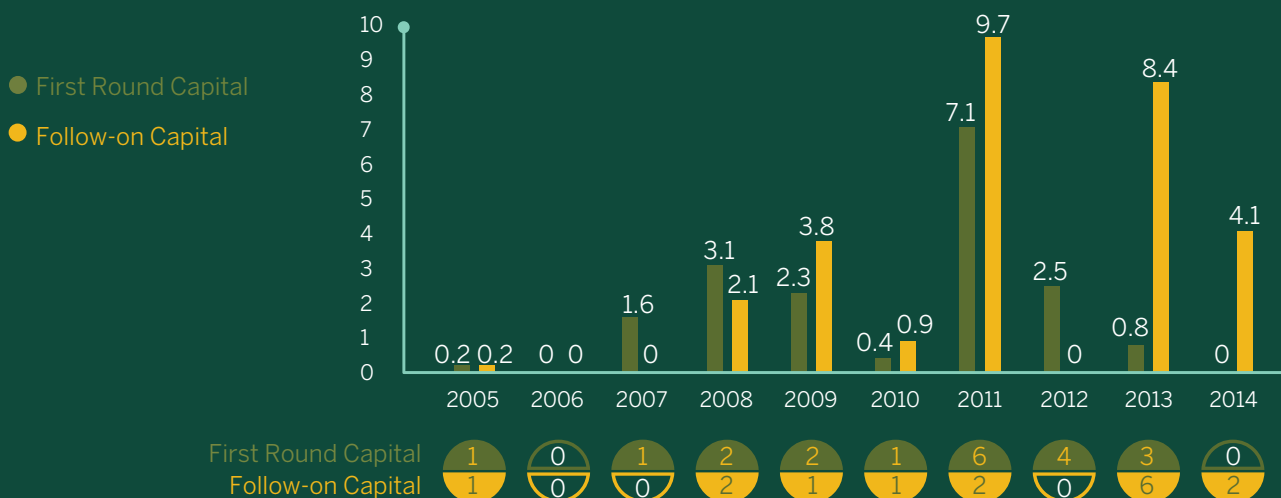
Increasingly, the flow of mainstream capital also concurrently draws interest from other large corporations that have traditionally not focused on BoP markets. Alliances or strategic buyouts by large firms or global multinationals are other routes for investors playing a catalytic role in mainstreaming impact sectors.

<sup>18</sup> Janalakshmi closes Series D Equity raise of INR 3.25 billion’, August 2013, Unitus Capital Press Release

## Catalyzing Mainstream Capital in Affordable Healthcare Delivery

Affordable healthcare has seen some mainstreaming in recent years with impact investors being closely followed by mainstream VCs and PEs seeking investible opportunities. The investment in Vaatsalya (a hospital chain focused on Tier II and Tier III towns) by Aavishkaar is probably the earliest known impact deal in the sector.

Exhibit 19: INVESTMENT IN AFFORDABLE HEALTHCARE DELIVERY SECTOR (US\$ million)



1. The US\$ 100 million PE investment in Narayana Health is not considered for this analysis

Source: Intellectap Analysis, VCC Edge, Venture Intelligence

Aavishkaar’s investment was soon followed by an investment in the affordable ambulance enterprise, Ziqitza, by Acumen Fund. In 2008, the activity in this sector picked up with Acumen investing in two new hospitals (Kerala First- AyurVaid and Lifespring). Impact investors also helped their existing enterprises sustain by investing follow-on capital (Vaatsalya and Ziqitza). The first co-investment in this sector was in 2009, with Aavishkaar co-investing with Seedfund in Vaatsalya. In 2011, Glocal Healthcare received its first round of investment from Elevar Capital and Sequoia. This is the first known first-round investment by a mainstream investor in this sector. In the same year, mainstream investors also directly invested in iKure and Health Point India. The initial investments by impact investors in this sector have had a catalyzing effect. This is evident not only from follow-on capital by mainstream investors in enterprises like Vaatsalya, but also in the first round funding for a number of other enterprises such as Glocal Healthcare, Jeevanti, Health Point India, Cygnus Medicare and Well Spring, all of which were able to attract mainstream capital directly. Impact investors, meanwhile, have continued to focus on emerging models in affordable healthcare.



# INVESTMENT TRENDS

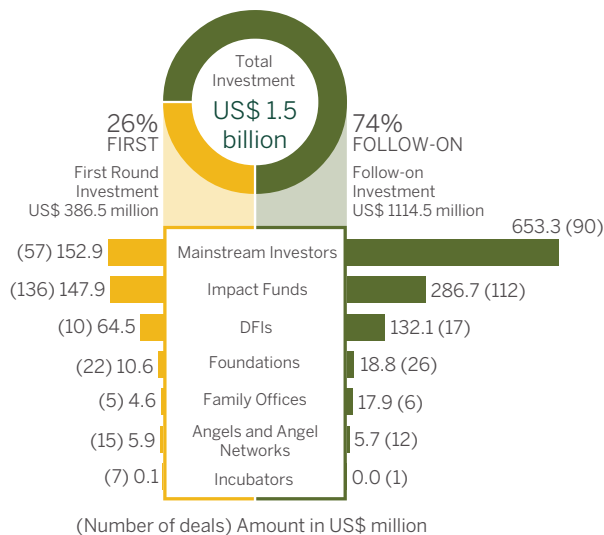
Investments worth US\$ 1.6 billion have been made in more than 220 enterprises from 2000 to February 2014. Impact funds have invested in more than twice as many enterprises in first round deals as compared to mainstream VCs, indicating smaller deal sizes, and highlighting the breadth of enterprises where they provide early stage capital.

**Mainstream VCs have captured a higher share of first round impact investments in India as compared to impact funds.** While DFIs have a smaller share of direct investments in impact deals, they are among the most prominent fund providers as LPs to a majority of impact funds in the country.

Excluding the US\$ 100 million invested in Narayana Health, the average first round deal size is around US\$ 1.7 million. For impact funds, the average size of first round investments is lower at around US\$ 1.1 million.

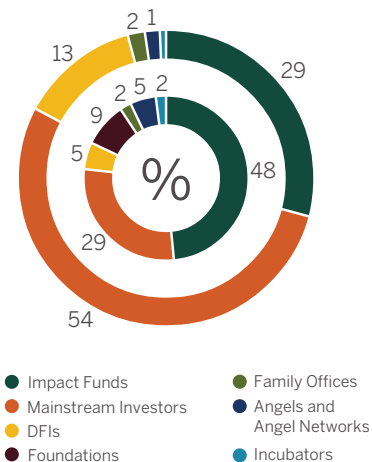
Exhibit 20: IMPACT INVESTMENT TRENDS IN INDIA (BY INVESTOR TYPE)

Impact Investments in India Across Investors (2000 - 2014)



Investor-wise Split of Amount Invested And Number of Deals

Internal ring represents number of deals in impact enterprises  
Outer ring represents amount of investment in impact enterprises



1. DFI investments only include direct investments in impact enterprises. In order to avoid double counting, DFI investment's in impact funds have not been included.  
2. The US\$ 100 million deal in Narayana Health is not considered for this analysis.

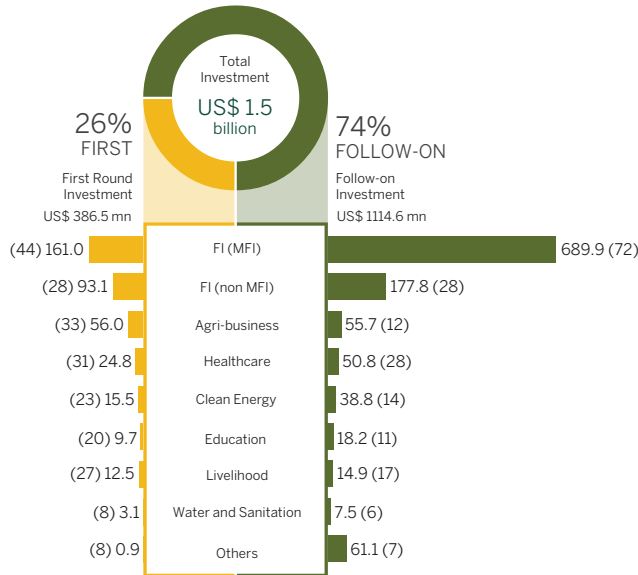
Source: Intelicap Analysis, VCC Edge, Venture Intelligence

Mainstream VCs have a significantly larger share of follow-on investments when compared to impact investors, as their larger fund sizes support an ability to infuse larger amounts of capital at later stages of impact enterprises.

## Sectoral Trends

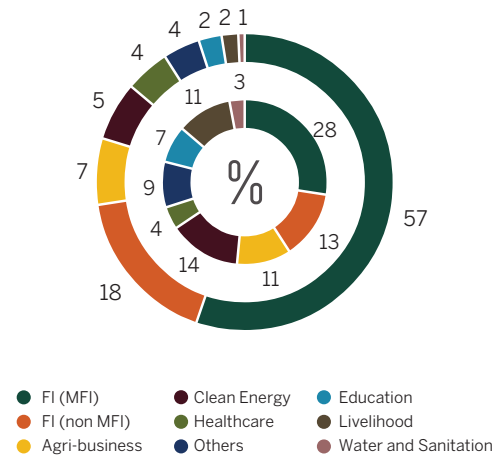
Exhibit 21: IMPACT INVESTMENT TRENDS IN INDIA (BY SECTORS)

Impact Investments in India Across Sector (2000 - 2014)



Sector-wise Split of Amount Invested And Number of Deals

Internal ring represents number of deals in impact enterprises  
Outer ring represents amount of investment in impact enterprises



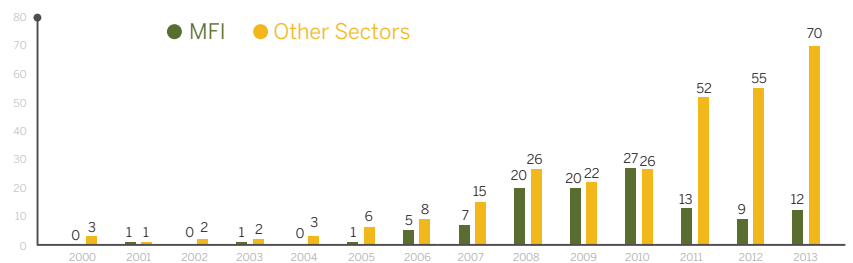
(Number of deals) Amount in US\$ million

1. The US\$ 100 million deal in Narayana Health is not considered for this analysis.

Source: Intelicap Analysis, VCC Edge, Venture Intelligence

**The breadth of impact investing activity is visible in the increasing number of deals across sectors beyond microfinance.**

Exhibit 22: COMPARISON OF NUMBER OF IMPACT DEALS (MFI & NON MFI)

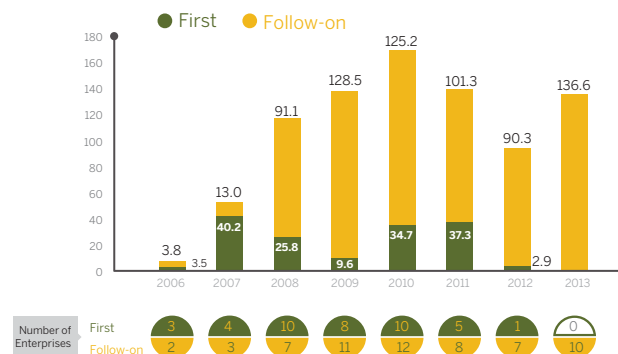


Source: Intelicap Analysis, VCC Edge, Venture Intelligence

### Financial Inclusion (MFI):

Financial inclusion (both MFIs and non-MFI enterprises) have the largest share of impact investment deals at around US\$ 1.1 billion. This deal value is heavily skewed towards MFIs, with just 15 of them receiving over 87% (US\$ 645 million) of total investments in the sector. Microfinance has also seen the highest average deal value among all sectors - average first round deal size was US\$ 3.6 million and average follow-on deal size was US\$ 9.5 million.

Exhibit 23: INVESTMENT TRENDS IN MFIs (US\$ million)

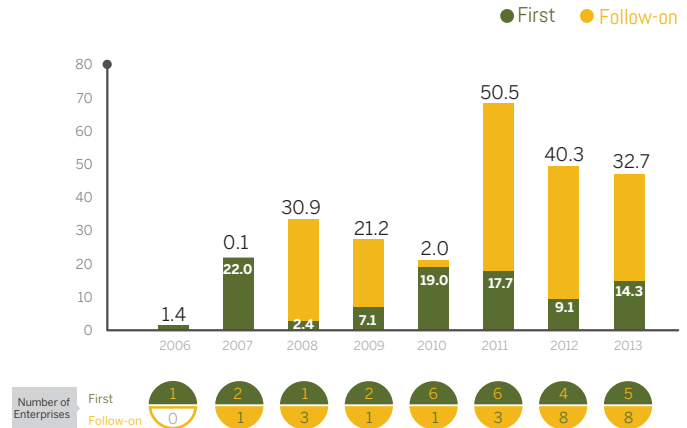


Source: Intelicap Analysis, VCC Edge, Venture Intelligence, Deal Curry

**Financial Inclusion (Non-MFIs):**

The FI (non-MFI) sector has received US\$ 93 million in first round investments (cumulative) and US\$ 178 million in follow-on investments (cumulative) till date. The average deal size for first round investments in this sector is US\$ 3.3 million and average for follow-on rounds is US\$ 6.3 million. In the immediate aftermath of the microfinance crisis, in 2011, the FI (non-MFIs) sector witnessed a steep rise in investments from US\$ 21 million in 2010 to US\$ 68 million in 2011. Two enterprises (FINO and MAS Financial Services) account for 40% of total investments across all rounds.

Exhibit 24: INVESTMENT TRENDS IN FI (NON-MFI) (US\$ million)

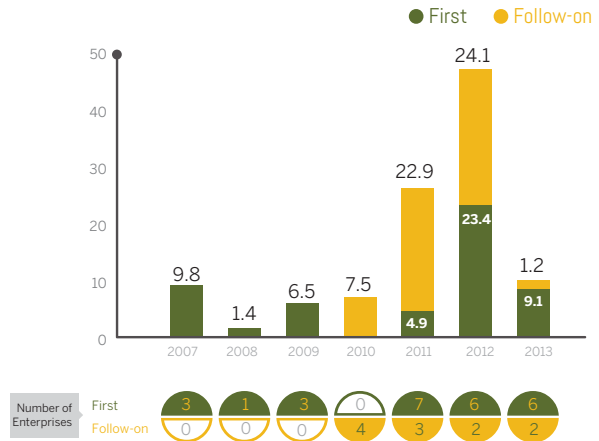


Source: Intelicap Analysis, VCC Edge, Venture Intelligence, Deal Curry

**Agri-business:**

Impact investing activity in agri-businesses took off in 2007 (see Exhibit 25) with only one prominent impact investment by Aavishkaar in SKEPL in 2003. Total first round and follow-on investments in agri-business (cumulative) till date has been US\$ 56 million each. However, first round deal value is heavily skewed by the investment in just one enterprise, Star Agri Warehousing & Collateral Management, which received US\$ 20.1 million. Most other first round investments were concentrated in enterprises focused on the post-harvest segment i.e. supplying goods from farm to market, dairy, farm productivity and ICT solutions. Follow-on investments were largely concentrated in just 3 enterprises (Suminter India Organics, Sresta Natural Bioproducts and Dodla Dairy), which together received around US\$ 42 million in follow-on capital, almost entirely from mainstream investors. With 11 agri-business investments, Omnivore Partners is a prominent agri-business and technology focused fund that primarily makes early stage investments in this sector.

Exhibit 25: INVESTMENT TRENDS IN AGRI-BUSINESS (US\$ million)

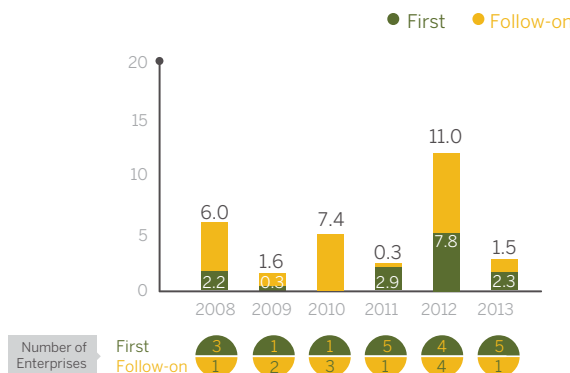


Source: Intelicap Analysis, VCC Edge, Venture Intelligence, Deal Curry

### Clean Energy:

The total value of first round investments in the sector (cumulative) is US\$ 15.4 million, while follow-on investments (cumulative) is US\$ 38.8 million. Acumen, IFC and Draper Fisher Jurvetson (DFJ) are some of the investors that have invested in clean energy impact enterprises operating in India. Most of the new clean energy impact enterprises operate in the off-grid solar and biomass solutions.

Exhibit 26: INVESTMENT TRENDS IN CLEAN ENERGY (US\$ million)

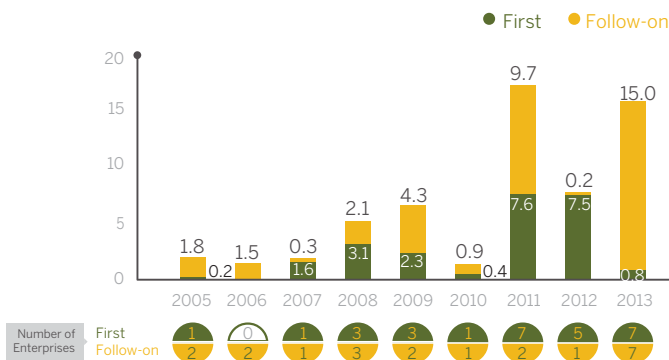


Source: Intellectap Analysis, VCC Edge, Venture Intelligence, Deal Curry

### Healthcare:

The total value of first round investments in the sector (cumulative) is US\$ 24.8 million. This does not include the US\$ 100 million deal in Narayana Health. The total follow-on investment (cumulative) in the sector is around US\$ 51 million. Most of the enterprises that received first round capital in the last three years are hospital chains in Tier II & Tier III cities, primary health clinics, ICT in healthcare and a couple of low-cost product innovation companies. Acumen, Aavishkaar and Seedfund are among the more prominent investors in the sector.

Exhibit 27: INVESTMENT TRENDS IN HEALTHCARE (US\$ million)



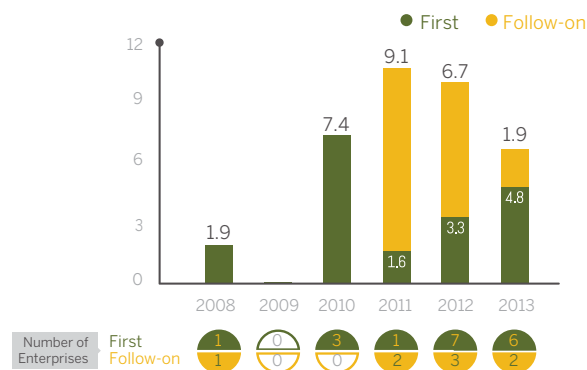
1. The US\$ 100 million deal in Narayana Health is not considered for this analysis.

Source: Intellectap Analysis, VCC Edge, Venture Intelligence, Deal Curry

### Education:

Investments in education have been sporadic since 2008, and the sector has seen an increase in the number and value of deals since 2010. Few enterprises have received follow-on capital in education. The relatively weak activity within the sector could possibly be due to low confidence about the sector among investors. Education continues to see support in the form of government subsidies while the National Skill Development Corporation (NSDC) has made a few investments in skills training enterprises.

Exhibit 28: INVESTMENT TRENDS IN EDUCATION (US\$ million)



Source: Intellectap Analysis, VCC Edge, Venture Intelligence, Deal Curry

**Livelihood, Water & Sanitation:**

The livelihood sector has a low average deal size (across all rounds) at just US\$ 0.6 million with few enterprises that have been able to demonstrate scalability until date. Within water & sanitation, only 8 enterprises have received investments of around US\$ 10 million.<sup>19</sup> Most of these enterprises are still largely in an early stage with the majority of investments made by impact funds. Aavishkaar has made the most first round investments in the sector.

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<sup>19</sup> Excludes the investments made globally in WaterHealth International, which also has operations in India

## THE TOP FIFTEEN - ENTERPRISE INVESTMENT ANALYSIS

The top 15 enterprises account for ~60% of all impact investment deals by value (across all rounds). Of this list, just five enterprises are from outside the financial inclusion (FI) sector, and three had investments primarily from mainstream investors.

The top 15 investments outside the FI sector represent around 20% of all impact investment deals. Healthcare (5 enterprises, US\$ 153 million), Energy (2 enterprises, US\$ 29.5 million) and Agri-business (4 enterprises, US\$ 67 million) have the largest share across sectors. The average investment per enterprise (across all rounds) has been much lower outside the FI sector at US\$ 21.5 million.

### Exhibit 29:

Top 15 Impact Enterprises (by total investments)  
(US\$ million)

	ENTERPRISE	TOTAL INVESTMENT
01	SKS Microfinance Ltd.	162.6
02	Equitas Holdings Pvt. Ltd.	130.9
03	Narayana Hrudayalaya Pvt. Ltd.	106.0
04	Janalakshmi Financial Services Pvt. Ltd.	102.1
05	Bhartiya Samruddhi Finance Ltd.	80.3
06	FINO PayTech Ltd.	76.1
07	Ujivan Financial Services Ltd.	55.3
08	Spandana Sphoorty Financial Ltd.	35.9
09	Value and Budget Housing Corporation Pvt. Ltd.	34.2
10	MAS Financial Services Ltd.	33.4
11	Bandhan Financial Services Pvt. Ltd.	30.0
12	Share Microfin Ltd.	28.0
13	D.light Design	22.5
14	Dodla Dairy Ltd.	20.5
15	Star Agri Warehousing & Collateral Management Ltd.	20.1
	<b>TOTAL</b>	<b>937.8</b>

Average: US\$ 62.5 million

Top 15 (non FI) Impact Enterprises (by total investments)  
(US\$ million)

	ENTERPRISE	SECTOR	TOTAL INVESTMENT
01	Narayana Hrudayalaya Pvt. Ltd.	Healthcare	106.0
02	Value and Budget Housing Corporation Pvt. Ltd.	Others	34.2
03	D.light Design	Clean Energy	22.5
04	Dodla Dairy Ltd.	Agri-business	20.5
05	Star Agri Warehousing & Collateral Management Ltd.	Agri-business	20.1
06	Comat Technologies Pvt. Ltd.	Others	17.2
07	Sresta Natural Bioproducts Pvt. Ltd.	Agri-business	17.1
08	Vaatsalya Healthcare Solutions Pvt. Ltd.	Healthcare	15.5
09	Forus Health Pvt. Ltd.	Healthcare	13.0
10	K-12 Techno Services Pvt. Ltd.	Education	12.0
11	Glocal Healthcare Systems Pvt. Ltd.	Healthcare	11.1
12	Cooptions Water Technologies Ltd.	Others	10.1
13	Suminter India Organics Pvt. Ltd.	Agri-business	9.2
14	Husk Power Systems Pvt. Ltd.	Clean Energy	7.0
15	Wellspring Healthcare Pvt. Ltd.	Healthcare	6.9
	<b>TOTAL</b>		<b>322.3</b>

Average: US\$ 21.5 million

- Above deal values do not include capital raised from public markets.
- Others include affordable housing and technology for development.

Source: Intellectap Analysis, VCC Edge, Venture Intelligence, Deal Curry

# AREAS OF FOCUS FOR IMPACT INVESTORS

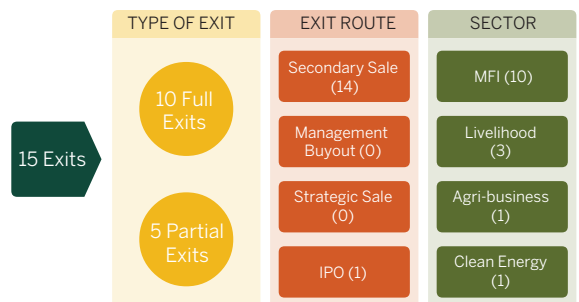
Since 2000, India has come a long way in terms of channelling capital towards impact enterprises. The growth in entrepreneurial activity in impact sectors in the past 5 years has brought much greater breadth to the types of enterprises. Impact investors, in turn, have followed the trends in entrepreneurial activity and expanded into a wide range of other sectors. However, with impact investing outside of microfinance seeing growth only in recent years, the industry is still young and will see significant evolution in the next few years. Over the past decade, a number of funds have matured in their investing thesis and newer funds continue to be established. However, there are a few important areas that impact investors need to focus on in the next few years in order to fully realize the sector's potential.

## Exit Track Record

**Impact investors need to establish a robust exit track record in order to demonstrate the success of their investing approach and accountability to LPs.** As with venture capital, the key measure of success for impact investing is its ability to generate returns through exits. Given its nascent state and the limited maturity of most impact sectors, the Indian impact investing industry has only seen 15 exits at premium by impact funds, with over 10 of them in MFIs. While these numbers are too small to draw any conclusions for the sector as a whole, it is important to examine the available information on exits.

**Most of the successful exits till date have been in the MFI sector and primarily through secondary sales** (see Exhibit 30). This is mainly due to the relative maturity of the microfinance industry in India and its ability to attract capital from mainstream investors. The partial exits are all through secondary sales to other investors. New investors often prefer a partial exit as they are keen to ensure that the capital infusion is utilized to support the growth of the enterprise. As a consequence, many seed stage investors remain invested for a much longer time frame.

Exhibit 30: EXIT RECORD



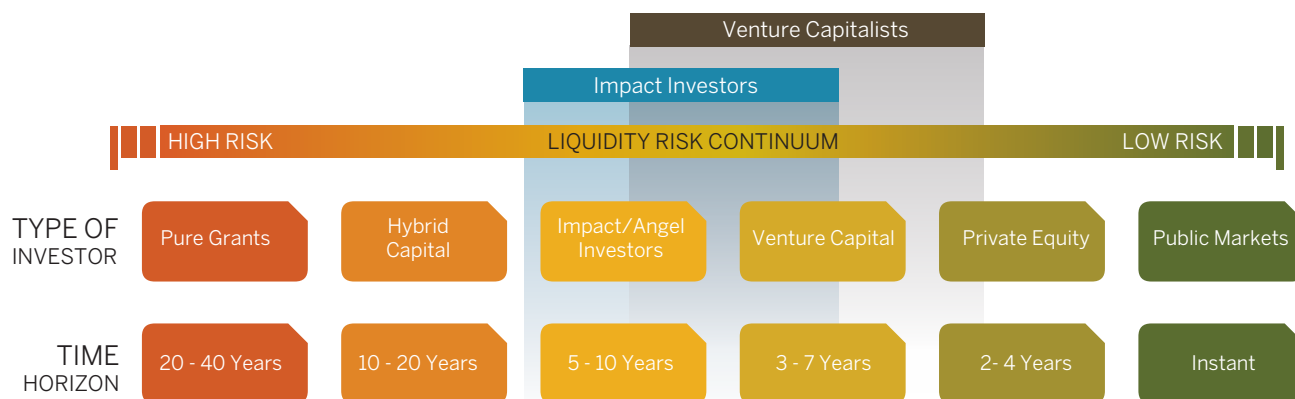
Source: Intellectap Analysis, VCC Edge, Venture Intelligence, Primary Research

The sector has seen only one listing on the public markets till date, which is that of SKS Microfinance in 2010. The impact investing sector has also seen a few exits through the management buyout and strategic sale routes, although these have largely proven to be loss making for investors.

**The relatively recent vintage of most funds partly explains the lack of exits.** A majority of impact funds in India were launched in the past three years. More than 50% of impact enterprises received their first round of funding only after 2010. Given the long gestation periods for many impact enterprises, it will take longer for the sector to show a significant exit track record. While most exits have been in MFIs which received a majority of the impact capital in the initial years, Aavishkaar India Micro Venture Capital Fund has the largest number of exits outside of financial inclusion (3 full and 2 partial successful exits), with deals in the livelihood, clean energy and agri-business sectors.

**The lack of adequate buyers at the next stage in the investing value chain is a significant barrier to exits for impact investors in India.** As a result, impact investing suffers from comparatively lower liquidity in the absence of readily available follow-on capital from later stage investors. While venture capital faces many of the same risks, some of the unique characteristics of impact investing places them further up on the risk curve of the continuum (see Exhibit 31).

Exhibit 31: LIQUIDITY CHALLENGE FOR IMPACT CAPITAL



1. Hybrid capital combines features of both equity and debt. For impact enterprises, it is characterized by muted or restricted returns. Muted or restricted returns implies that investor's returns are capped.

Source: Intellectap Analysis

**Several efforts are being made to address the liquidity conundrum for early stage and small enterprises.** The SME Exchange launched in India in 2013 is one avenue for small enterprises (applicable to both mainstream and social enterprises) seeking access to public markets. Similarly, initiatives like the Social Venture Connexion (SVX) (for enterprises in Canada), Social Stock Exchange (for EU based enterprises) and Asia Impact Investment Exchange (for Asia and Africa based enterprise) have been established recently. The Asia IIX recently launched Impact Exchange in association with the Stock Exchange of Mauritius which allows listing of social enterprises in Mauritius.



## Fund Size

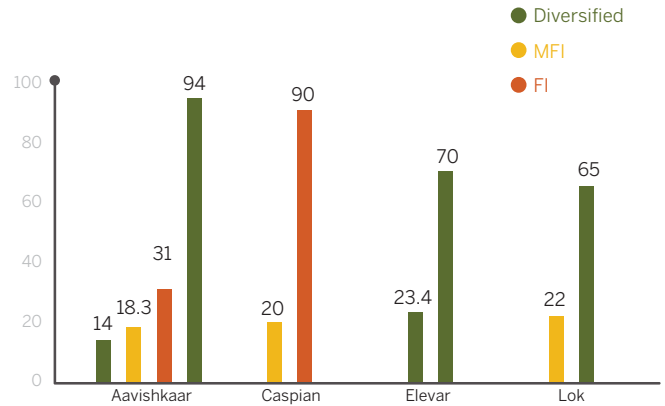
**As impact investors launch newer funds, there is an upward trend in the size of fund assets.**

The emergence of impact enterprises across a range of sectors resulted in an increase in demand for impact capital. This led to several investors establishing newer and larger funds to channel investments towards these emerging opportunities. Among the impact investors that have raised multiple funds, most had microfinance as the focus of their first fund. They have since diversified to other sectors in their subsequent funds. Larger fund sizes could be related to increased ability of impact enterprises to absorb capital, as well as the need for funds to have a higher fund fees and larger teams.

**The venture approach typically requires funds to focus on early stage investing, and involves smaller size deals and larger team sizes for sourcing and managing investments.**

Average first round deal sizes have been less than US\$ 1 million in most sectors (see Exhibit 33). Impact investors incur a higher opportunity sourcing cost given the need to identify opportunities in Tier II and III cities and more remote regions of the country. In addition, investors require additional manpower to address the need for greater non-financial support to investee firms particularly to deal with challenges in developing robust business models in difficult markets. Finally, most impact investors have dedicated staff to monitor and report on the impact that their investments create.

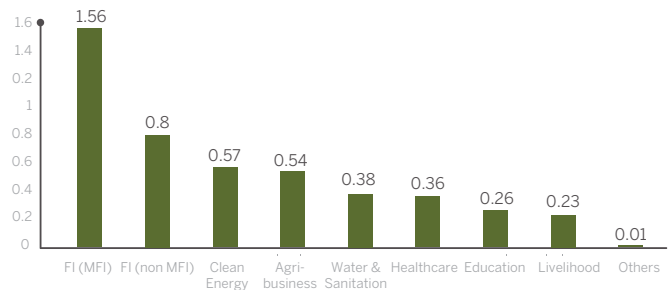
Exhibit 32: TRENDS IN FUND SIZE (US\$ million)



1. It should be noted that the Elevar funds were focused on MFIs, with a few deals in non-MFIs enterprises

Source: Intellectap Analysis, VCC Edge, Venture Intelligence, Reliable Public Source

Exhibit 33: AVERAGE FIRST ROUND INVESTMENTS BY IMPACT FUNDS (US\$ million)



Source: VCC Edge, Venture Intelligence, Reliable Public Source

## Exhibit 34: TRENDS IN DEAL SIZES

Name of Fund	Average Deal Size (US\$ million)	Sectors Invested
AIMVCF	0.5	Clean Energy, Healthcare, Agriculture, FI (non MFI), Livelihood, Water & Sanitation, Technology for Development
Aavishkaar India II	1.6	Clean Energy, Healthcare, Agriculture, FI (non MFI), Livelihood, Water & Sanitation, Education
Unitus Equity I	2.1	FI (MFI), Agriculture (1) and Technology for Development (1)
Unitus Equity II	1.8	FI (MFI), FI (non-MFI), Healthcare (1)
Bellwether Microfinance Fund	0.7	FI (MFI), FI (non-MFI) (1)
India Financial Inclusion Fund	2.8	FI (MFI), FI (non-MFI)
Lok Capital I	1.2	FI (MFI), Livelihood (1)
Lok Capital II	2.1	FI (MFI), FI (non-MFI), Education, Livelihood

1. Sectors which have only one investment in the fund's portfolio are highlighted separately
2. Average deal size is the simple average of all the publicly available deals. The range of investment value per deal may be very broad.

Source: Intellect Analysis, VCC Edge, Venture Intelligence, Reliable Public Source

A larger fund size might result in larger deal sizes to accommodate a similar number of investments. A continued focus on early stage enterprises while keeping the deal size small will require a larger number of deals, putting considerable strain on a fund team's ability to manage a very large number of investees. Alternatively, impact investors managing more than one fund may also adapt their strategies by pursuing a multi-round investing approach in their existing investee firms.

**Larger fund sizes will also impact the sectors and businesses that impact investors would fund.** With larger fund sizes, impact funds would need to compete with mainstream investors in larger size deals. This might result in a gap for funding early stage start-up enterprises through small deals. Angels and angel networks can play an important role in bridging this gap.

## Angels and Angel Networks

While most entrepreneurial ventures in India have largely received their initial funding from friends and family, there has always been a small number of angel investors and HNIs (High Networth Individuals) who have also backed early stage ventures. Angels have increasingly started organizing themselves into networks to pool their capital and make it easier to source investible enterprises. Indian Angels Network (IAN) and Mumbai Angels were among the earliest angel networks.

In response to the need for seed capital among impact enterprises, Intellectap's Impact Investment Network (I3N) is the first dedicated network of angels focused on impact investing. Since its origin in September 2011, I3N has expanded to include 50 members, has showcased 28 enterprises and facilitated 6 deals. I3N aims to expand to Tier II and III cities in the next couple of years and is working to attract HNIs from these areas. International impact angel network Toniic also has a presence in the country. In 2012, Toniic announced a partnership with Ennovent Impact Circle to further accelerate capital infusion in impact enterprises. Launched in 2012, Ennovent Impact Circle is a network of investors offering deal sourcing, mentor engagement, investment support, and non-financial services to investors and social enterprises. It has 20 members and has showcased around 23 enterprises in 2013.

Even mainstream angel networks such as IAN have recently started a separate impact focused sub-group and have invested in a few impact enterprises such as GoCoop and Gram Vaani. Mumbai Angels also invests in agriculture, healthcare and education and its portfolio includes impact enterprises like Milk Mantra and eFarm. There are, however, only a few impact enterprises that have received investments from these angel networks, with a total of US\$ 10.3 million in investments until 2013.

The growth in fund size will certainly require impact investors to adapt their strategies and teams. If existing impact funds increase their focus on later stage deals in order to deploy larger funds, this will lead to a gap in availability of early stage capital for impact enterprises which will need to be plugged by a new set of impact investors.

“ On a relatively smaller fund size with a corresponding 2% to 2.5% management fee, one has to be extremely mindful of building large teams, office space and travel budgets. However, the fund will still have to invest significantly in due diligence when working in rural locations. This is an incentive for fund managers in the space to raise larger funds. In such events, two potential outcomes occur: The fund invests in a large number of portfolio companies, potentially more than can be competently managed given the size of the staff. Or, the fund increases its ticket size and invests in growth stage companies, playing in what is an incredibly crowded space in India. Both outcomes are not ideal.

**Thomas Hyland, Aspada Advisors**

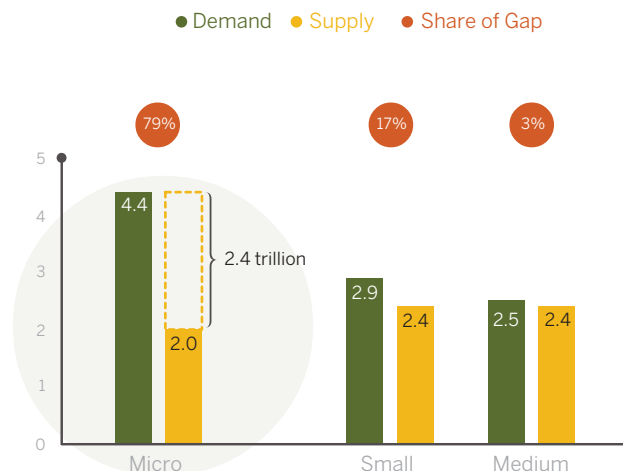
## Demand for Debt

**For most non-FI impact enterprises in the seed and early stage, access to debt finance continues to be an important constraint to their growth and financial viability.** With debt and equity playing a complementary role in financing enterprise growth, the lack of debt availability for impact enterprises is a significant gap in the impact investing ecosystem. Impact enterprises need debt financing between different rounds of equity infusion to meet short term working capital needs and to support growth. Debt helps enterprises increase the gap between multiple rounds of equity infusion and restricts equity dilution for entrepreneurs at lower valuations. Debt financing is particularly important for impact enterprises as dilution of owners' stake may cause mission drift.

There exists a huge gap between the demand and supply for debt among MSMEs. As most impact enterprises are largely in the seed or early stages of growth, they face many of the same challenges as the wider MSME sector in India. According to an IFC and Intellectap study on MSME finance in India<sup>20</sup>, the total unmet demand for debt in the MSME sector alone is around INR 3 trillion (US\$ 60 billion). Among MSMEs, micro enterprises<sup>21</sup> find it the most difficult to access loans (see Exhibit 35).

**The lack of collateral and inflexibility in repayment schedules are major bottlenecks in accessing bank credit for social enterprises.** Commercial banks are the main source of debt funding for all MSMEs (80% of all formal loans).<sup>22</sup> However, banks primarily lend to small and medium enterprises (SME), and tend to demand collateral. Traditional bank loan products are not suited for early stage enterprises as they have few assets and are unable to service small loans with inflexible repayment schedules. Microenterprises are the most affected with a demand for debt finance at INR 2.4 trillion (~US\$ 46 billion) (see Exhibit 35).

Exhibit 35: DEBT GAP BY ENTERPRISE SIZE (INR trillion)



Source: Micro Small and Medium Enterprise Finance Market in India, Intellectap & IFC 2012

“ We have faced problems in taking loans from banks and NBFCs due to their demand for collateral. SKEPL's business is asset light and hence, we could not provide collateral. Even after 3 years of strong balance sheets, banks were reluctant to provide loans”

**Ujval Parghi,**  
**Shree Kamdhenu Electronics Pvt. Ltd (SKEPL)**

<sup>20,22</sup> Micro Small and Medium Enterprise Finance Market in India, Intellectap & IFC, 2012

<sup>21</sup> As per MSMED Act, 2006 microenterprises are those enterprises where investment in plant and machinery does not exceed INR 2.5 million for manufacturing enterprises and INR 1 million for service providing enterprises.

While impact investment funds are a major source of equity, their contribution to debt funding has been limited. As per Securities and Exchange Board Of India (SEBI) regulations<sup>23</sup>, not more than one third of investible funds by foreign VCs may be invested by way of debt or debt like instrument in an existing investee. Hence, most impact funds provide small amounts of short term debt to their portfolio companies.

**The government and banks have taken various steps to address the debt gap in MSME financing. Many alternative debt financing models are also pioneering debt provision to early and growth stage enterprises.** While several challenges in debt financing are common for impact enterprises and all other MSMEs, initiatives to improve MSME financing in general would also be helpful for enterprises in these critical needs sectors. The credit guarantee fund created by SIDBI and Gol has been one of the initiatives but has not been a great success till date.

### **Collateral Free Loans: Credit Guarantee Fund Trust for Micro & Small Enterprises (CGTMSE)**

The Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) was set up by SIDBI and Gol to facilitate access to collateral free loans to micro and small enterprises from banks and financial institutions by providing credit guarantees. Under this scheme, new as well as existing micro and small enterprises can get collateral free loans up to INR 10 million (~US\$ 165,000). All Scheduled Commercial Banks, along with some Regional Rural Banks (RRBs), NABARD and North Eastern Development Finance Corporation Ltd (NEDFi) are Member Lending Institutions of CGTMSE. A guarantee and annual service fee is charged by the CGTMSE to avail of the guarantee cover. Presently, the guarantee fee and annual service charges are to be borne by the borrower. As of March 2013, over 1 million accounts have been accorded guarantee approval for INR 526 billion (US\$ 10 billion).

However, as per a 2010 Report of the Working Group to Review the CGTSMSE, the scheme did not achieve its potential as banks found the guarantee claim procedure complicated and did not encourage loans without collateral.

<sup>23</sup> Securities and Exchange Board Of India (Alternative Investment Funds) Regulations, 2012

**In order to meet the growing debt demand of impact enterprises, a few debt providing organizations such as Intellegrow, Kinara Capital, Vistaar Livelihoods and Varthana have emerged in the last few years.**

These organizations provide debt financing to early and growth stage enterprises and entrepreneurs that are unable to access loans from banks. They have designed customized products to suit the needs of early and growth stage enterprises. Most of them provide cash flow based lending and collateral free loans. In the absence of a track record and other documents, reference checks, peer evaluation, in-person due diligence, along with personal/corporate guarantees are some of the processes used by lenders to evaluate the ability and willingness of enterprises to repay debt.

These debt fund providers primarily fund high growth enterprises and charge a higher interest rate than banks given the high cost of their capital and the risks in providing non-collateralized loans. However, access to debt finance remains a significant challenge for most early stage enterprises, hybrid business models and low margin businesses that cannot afford these interest rates.

**Debt finance seems to be one area that could interest private domestic capital as it has a more favourable risk-return profile as compared to equity investments.**

There is negligible private domestic capital in the impact investing sector due to the availability of more attractive return alternatives for most investors. Traditionally, NBFCs that are systemically important, non-deposit taking companies (NBFCs-ND-SI)<sup>24</sup>, have accessed domestic funds through commercial papers, debentures and inter-corporate deposits apart from bank finance.<sup>25</sup> This, however, is yet to be tested in the impact sector. Intellegrow, one of the first NBFCs to start debt financing for impact enterprises has raised around US\$ 5 million in domestic debt funds for on-lending. The success of some of these pioneering models may attract further domestic investors and increase the pool of capital available for early stage debt financing. While few enterprises have taken the pioneering role, there is still a long way to go towards bridging the gap in debt availability. The relatively more favourable risk-reward dynamic for debt might provide an opportunity to draw in more domestic capital to help bridge this gap in debt finance.

“In the absence of debt, frequent equity investment results in a reduction of promoter's equity and may lead to mission drift. Intellegrow's role is to help early stage enterprises reach a stage where they can command a better valuation and help them realize the mission and vision with which they started.

**Sanjib Jha,**  
**Intellegrow**

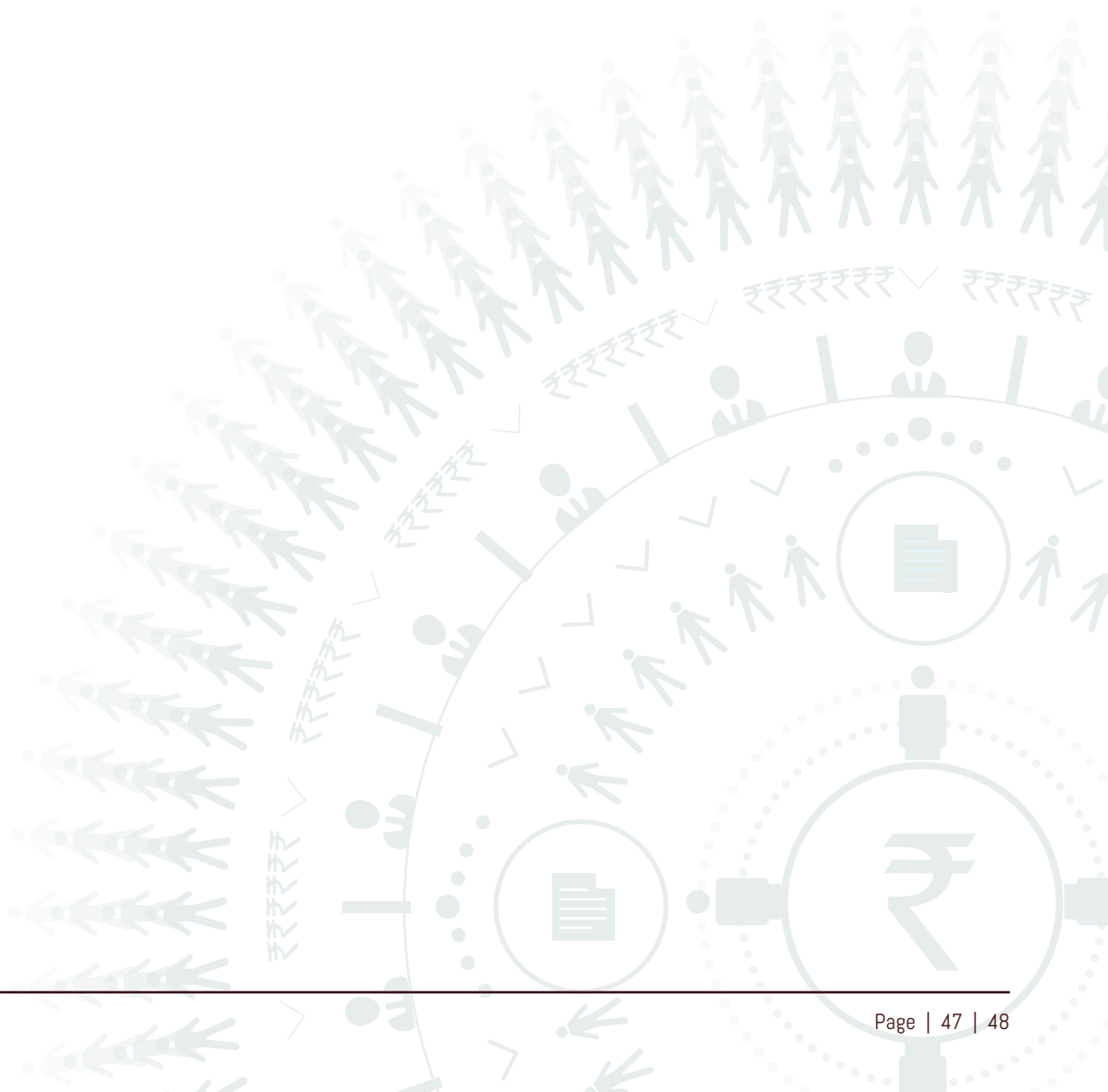
“There is a huge scope for debt funding in impact enterprises. However, the cost of capital is very expensive for debt providers. Essentially, the need is to develop a framework to reduce the cost of capital and take the initial risk to make the model work after which others can follow.

**Pravin Gandhi,**  
**Seedfund**

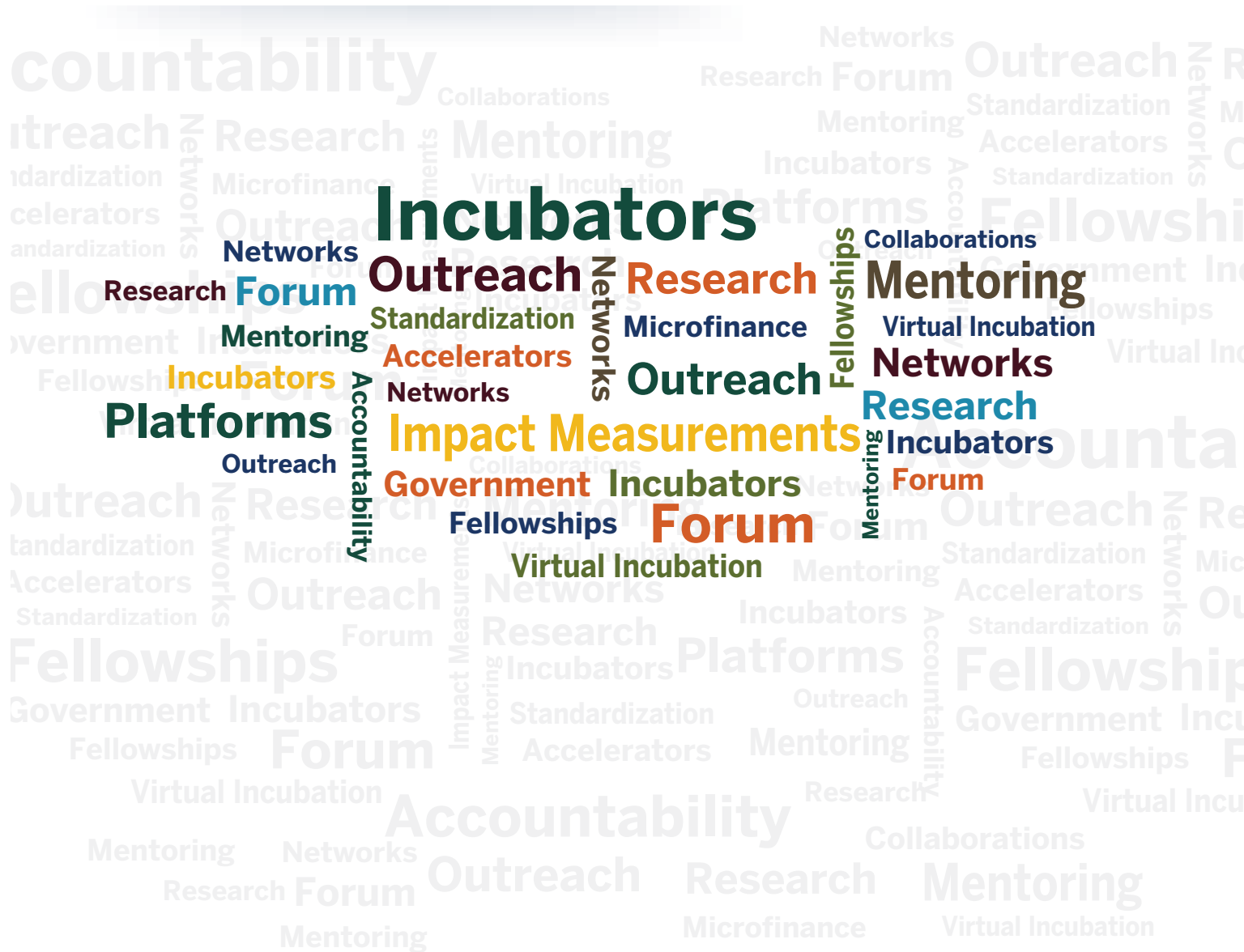
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<sup>24</sup> Classified by RBI as NBFCs with assets of INR 1 billion and above

<sup>25</sup> Working Group on the Issues and Concerns in the NBFC Sector: Report and Recommendations, Reserve Bank of India, 2011



# ECOSYSTEM ENABLERS





## ECOSYSTEM ENABLERS

**T**he vibrant impact investing ecosystem is supported by some strong sector enablers such as incubators, angel networks and sector forums. These enablers provide critical support to the entrepreneur from seed stage up to first round funding from impact investors and at times, even beyond this stage. Impact focused incubators and angel networks are facilitating financial and non-financial support to seed stage impact enterprises. A very strong support ecosystem is critical to the success of the sector.

**Ecosystem enablers primarily contribute in identifying impact entrepreneurs and providing them with support infrastructure to give shape to their enterprise.** Impact entrepreneurs located in Tier I cities are able to benefit from the predominantly urban networks and forums for mainstream business support. Entrepreneurs in Tier II and III cities and more remote geographies are likely to be starved of similar support. Ecosystem enablers not only identify these entrepreneurs but also give them an opportunity to fine-tune their solutions, and benefit from formal incubation support. Villgro, Dasra, UnLtd, Aarohan Ventures and Start Up! are impact focused incubators serving this specific niche. A few impact investors such as Accion and Upaya also run incubation programs to offer non-financial support to the entrepreneurs as well as build a pipeline of enterprises that they can fund in the future.

### Promoting Social Entrepreneurship: Expanding outreach to New Geographies

Incubators and other sector enablers are innovating to source and incubate enterprises from non-metros.

**Villgro runs a program 'Unconvention|L' in 15 cities across India.** It is a platform offering a combination of initiatives that draws impact entrepreneurs from different regions, shares expert knowledge from sector leaders, and connects people to an ecosystem of opportunities and resources.

**UnLtd has initiated an affiliate program to launch independent entities in different cities** to scout, fund and support early-stage enterprises. These organizations will leverage UnLtd India's brand and knowledge to support entrepreneurs in their regions/cities. UnLtd will provide partial start-up funding for the first two years of operating the affiliate, access to the UnLtd India model, brand, tools, and learning and coaching, hands-on support and regular knowledge exchanges across the Network.

**Intellectap is launching StartupWave, a virtual incubation platform for early stage impact enterprises.** StartupWave will work in collaboration with existing incubators and accelerators and complement their efforts.

<sup>26</sup> Aarohan Ventures is a social enterprise incubation initiative of The Centre for innovation Incubation and Entrepreneurship, IIM-Ahmedabad

**Impact entrepreneurs seek capital, articulation of business plan and mentoring support from ecosystem enablers to become investment ready and attractive to early stage impact investors.** Impact incubators guide the entrepreneurs in building business plans and strategies, understanding customer needs and setting up systems and processes. Some enablers run fellowship programs that introduce new professionals to the ecosystem and simultaneously help ease the human resource challenge in impact enterprises. Incubators also provide funding to early stage enterprises either as grants or equity. For example, Villgro provides funding of around US\$ 80,000 per enterprise.

**Impact enterprises and investors are forming industry organizations to better engage with the larger ecosystem and the government.**

National Association of Social Enterprises (NASE) was formed in April 2012 to establish a networking platform for members and to play a role in lobbying with various government departments and funding bodies. The Association also intends to create a code of conduct and develop impact assessment metrics for its members. It further aims to mentor upcoming social entrepreneurs and create awareness about the potential of social entrepreneurship among the student community.

Indian Impact Investors Council (IIIC) is a member based industry body that aims to catalyze the growth of the impact investing sector in India. The main objectives of IIIC are impact measurement and standardization, research and policy support and brand building and information dissemination.

**With impact being the other important performance attribute for the industry, there is a greater need than ever before to move towards metrics standardization.** For this funds need to articulate their own role more clearly as part of a wider drive towards greater transparency and accountability. A key issue is how to evaluate impact and ensure that reporting does not overreach on outcomes and create misplaced expectations of what impact investing can achieve.

**The focus on impact measurement has largely been on reporting impact created by enterprises.** The approach to impact reporting is closely aligned with the objectives of impact investors, which in turn derives from the mandate of their LPs globally. In developed economies such as the United States, most investors are family offices and foundations that seek a greater level of accountability from organizations to which they provide capital. With an explicit focus on social and environmental impact in addition to financial return, measurement frameworks are designed to evaluate the enterprise receiving the capital. However, a similar approach may not be as effective in India, where most entrepreneurs pursue BoP focused businesses primarily to address a need gap and believe that impact is embedded in their business models.

“ Limited partners would like to see impact measurement as they would want to know the impact of their capital. However, reporting would be onerous for impact entrepreneurs. They are here to run a business. For them to find people to report on the metrics might be a challenge. It needs to be balanced properly.

**Srikrishna Ramamoorthy,  
Unitus Seed Fund**

**Given the high cost of collecting data for enterprises and reporting on diverse requirements by funds, a key issue that needs to be addressed by the industry is standardization in impact reporting frameworks.** The most significant initiative on standardization till date has been the focus on creating a common taxonomy of metrics by the Global Impact Investing Network (GIIN) with support from Rockefeller Foundation. This taxonomy, referred to as the Impact Reporting and Investment Standards (IRIS) provides the most detailed list of metrics for impact assessment and can be used by both funds and enterprises.

At present, most impact investors (GPs) follow an impact reporting process as mandated by their different LPs. In several cases, they are required to report on a diverse set of reporting frameworks as required by the bespoke needs of each LP. Further, aligning impact reporting to the realities of the Indian context will also help establish a baseline for comparison of impact data across funds and enterprises. The IIC has taken the lead in evolving such a common standard for metrics and reporting for impact funds in India. A robust and relevant impact measurement framework remains one of the unfinished agenda items for the impact investing sector. With the rapidly growing profile of this sector and the emergence of more funds and larger pools of impact capital, the ability to clearly articulate both the impact and financial measures will boost transparency and bring greater accountability for all stakeholders.

### Impact Measurement Frameworks

#### GIIRS



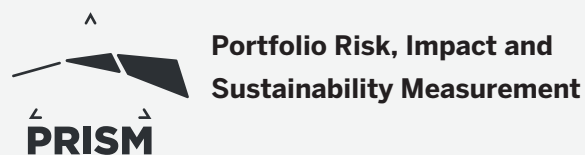
Assesses the social and environmental impact and practices (but not the financial performance) of companies and funds using a rating system.

Provides rating assessment of impact enterprises and impact investors.

Owned by B Corp

Supported by USAID, The Rockefeller Foundation, Deloitte and Prudential

#### PRISM



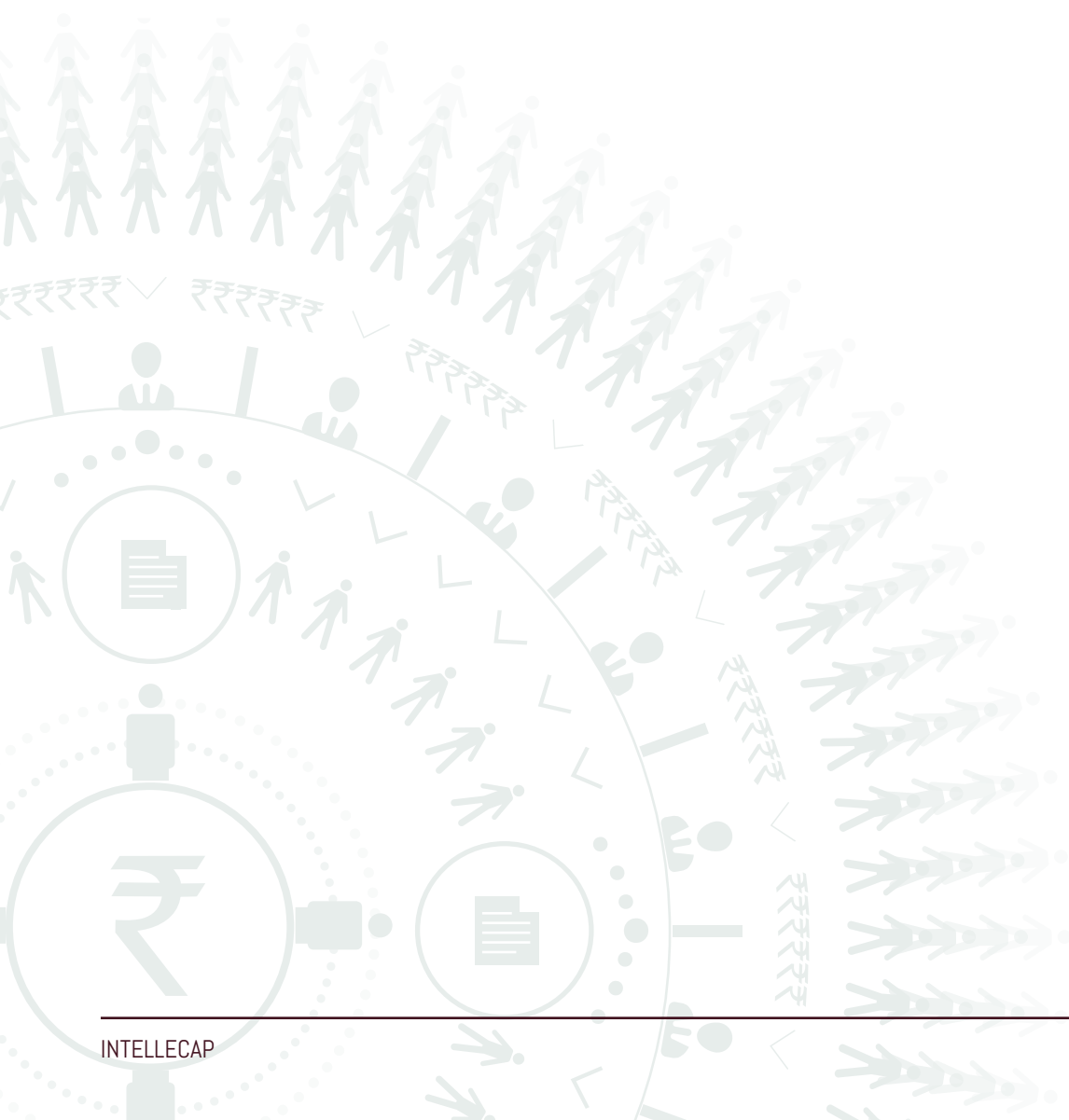
Focuses on measuring impact of funds. A common standard that is relevant to impact investing in emerging markets like India.

Provides a rating and reporting framework that captures the impact fund's unique contribution as well as that of its portfolio investments.

Developed by Intellectap

Supported by GIZ and IFC

# LOOKING AHEAD



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## LOOKING AHEAD

India's impact investing ecosystem has seen significant growth since it emerged in the early 2000s. As we look back at the evolution of impact investing in India, all signs point to the fact that, with the right impetus, it can prove that private capital can make a significant difference to the entrepreneurship landscape and thereby, to the lives of people at the BoP. We hope and predict that the following trends play out in the coming 5 years:

- Indian impact investing will continue to take a predominant venture approach, with for-profit enterprises leading the way. For a large number of impact enterprises, equity is probably not the right instrument keeping in mind the limitations of business model, management depth and lack of exit potential. There is a strong demand for diverse financial instruments such as debt and mezzanine products from these enterprises which remains unaddressed. Innovations in financial instruments are the need of the hour. There is probably a need for philanthropic innovations such as a 'low cost debt facility' and market linked variants that would be different from bank lending. These innovations would go a long way in meeting the varied needs of impact enterprises and make the impact investing ecosystem more robust.
- The role of grant capital within the Indian impact investing sector is likely to evolve over the next few years - from action focused grants to leverage focused grants. Reducing the risk perception in the mind of other investors and taking first loss positions would help realize this leverage. Innovations such as Development Impact Bonds will also find their way in India and help grant capital seek greater accountability from the Indian impact investing ecosystem.
- The government will remain center stage in meeting the most pressing demands from the low-income population at the BoP. However, with government budgets being constrained, financial products such as Social Impact Bonds will emerge in the near future. These products will need to be adapted to Indian conditions to fully realize their potential to unlock capital.
- There is increasing recognition of the Impact Investing sector by regulators in India, with the Securities and Exchange Board of India (SEBI) including social venture funds in their Alternative Investment Funds guidelines. Going forward, industry associations such as the IIIC and the NASE will represent the collective views of stakeholders and spur concrete interactions with regulators leading to clearer guidelines and legislation.

- The latest Companies Act 2013<sup>27</sup> mandates that 2% of average net profits of companies must be spent under the Corporate Social Responsibility (CSR) budget. This may have a positive impact on capital flows to the impact investing sector and particularly impact funds. However, there is a need for greater clarity on the regulations allowing CSR funds to invest in impact funds.
- Corporations will play an increasingly active role in the impact investing sector by working with impact enterprises and getting involved earlier in the innovation life cycle. They also have a significant role to play by participating in the acquisitions of these enterprises.
- Domestic capital will be more actively involved in providing capital to impact funds. This will be driven by an improved articulation of the role of impact investing and the differentiation of impact funds from mainstream investors, as well as an opportunity to further diversify investment portfolios. The increased role of domestic capital will bring in greater stability to the sector and provide a stronger local context to investments in this fast evolving landscape.

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<sup>27</sup> The Companies Act 2013, Section (135) makes new recommendations on CSR spending by companies in India.

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# ANNEXURE

## Research Methodology

The research team interacted with more than 40 important stakeholders including impact investors, enterprises, ecosystem enablers, and sector experts. The information received in these interactions was supported by exhaustive research on important literature concerning impact investing in India and globally. The research also drew on prior studies about the social enterprise landscape, which involved primary research and an online survey of over 100 enterprises and sector enablers.

The team approached the assessment of impact investing, performance and trends through a 3 part analysis of available data from secondary sources as well as interactions with various stakeholders.

### Part 1: Impact Enterprise Evaluation

The team conducted a detailed assessment of cumulative impact investments through a rigorous evaluation of over 600 enterprises from Intellectap's internal databank, enterprises that have been part of the Sankalp platform over the years, and from investors to identify around 430 impact enterprises. The final list included only for-profit enterprises that had a direct impact on the underserved population through a focus on livelihoods, or improving access and affordability in the critical needs sectors of healthcare, education, agri-businesses, energy, water, sanitation, financial inclusion, technology for development and affordable housing. Enterprises with business models that had only an incidental impact were excluded from consideration. The year of establishment, sectors of operation, geographical area of enterprise operation, business models (product/process centric etc.), entrepreneur profiles, incubator affiliation, etc. were also collated during the research.

Note: The term "Impact Enterprise" is analogous to "Social Enterprise."

### Part 2: Data on Impact Funds

The team evaluated over 65 funds with some historical record of making impact investments in India based on Intellectap's own knowledge of the industry. From this list, 51 funds were identified as impact investors based on the criteria that a majority of their deals were in impact enterprises (definition in detail provided in this report). These funds, in turn, are managed by 35 fund managers. Data collated for these funds include limited partners, planned fund size, fund advisor, sector focus, year of establishment, domicile of the fund, list of investee firms, and exits.

Venture Intelligence, VCC Edge, and fund websites were used extensively to collate information on impact funds. This was supplemented by primary research.

### Part 3: Evaluation of Impact Deals

The research team analyzed over 6000 VC and PE deals from the year 2000 as disclosed on deal databases - VCC Edge and Venture Intelligence. The final list of impact investments were identified based on the following criteria:

- **Type of Enterprise:** Any investment in identified social enterprises was considered as an impact investment deal regardless of the stage of the business – be it seed stage or publicly listed entities from impact sectors. For eg. investments in SKS Microfinance even post IPO were considered as impact deals as the nature of business was not altered by the status of the firm as a publicly listed entity. Other exceptions considered include the US\$ 100 million invested in Narayana Health which is a celebrated case study of an impact enterprise in the affordable healthcare sector.
- **Type of investor:** All deals involving identified impact investors, developmental finance institutions and foundations were evaluated on a case by case basis. Deals involving mainstream VC investors and angels in impact enterprises were also included in the aggregate listing of deals.

While this listing is exhaustive, it may still exclude some information on impact investments which are not available in the public domain or remain undisclosed for confidentiality reasons.

Further, the deals were classified by sectors, investor type, and also segregated for capital provided by different types of investors in co-investment deals.

For all deal values, INR to US\$ conversion have been made using the exchange rate prevailing at the time of the investment.

### Listing of Sectors and Investors

SECTOR TYPE	INVESTOR TYPE
Agri-business Clean Energy Water and Sanitation Livelihood Healthcare Financial Inclusion (MFI) Financial Inclusion (non MFI) Education Others	Mainstream investors DFIs Impact Funds Family Offices Angel and Angel Networks Foundations



**Note on sectors**

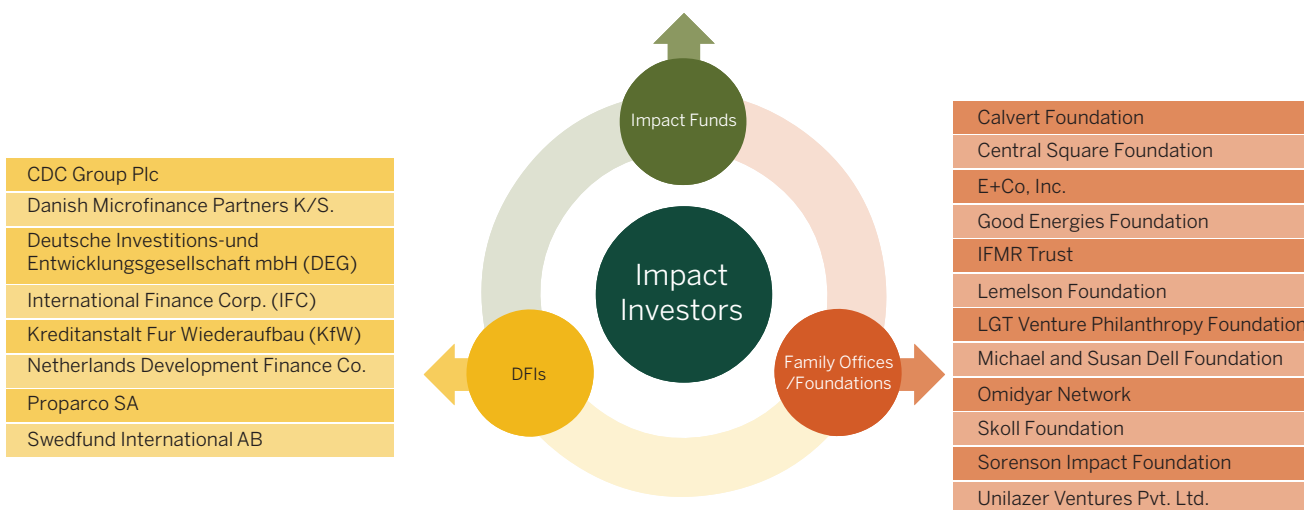
- Enterprises offering specific technology solutions that are relevant to a particular sector have been classified within them. For example, Vortex Engineering provides technology solutions relevant to Financial Inclusion (non MFI) and hence deals related to this enterprise are included within the FI (non MFI) sector.
- Clean Energy sector primarily includes impact enterprises that are providing access to energy solutions and/or creating livelihoods at the BoP
- Technology for development includes primarily IT and software companies which do not conform to the above mentioned categorization.
- Enterprises that provide affordable housing finance have been classified under Financial Inclusion (non MFI) enterprises.
- The technology for development and affordable housing (construction) sectors have been considered under 'Others' within the deal classification.

**Note on Investors**

For the purpose of analysis, 'impact investors' includes the following categories of investors: impact funds (which are primarily General Partners), DFIs, family offices, foundations, and angel networks.

## Impact Investors in India

Aavishkaar Goodwell India Microfinance Development Co. Ltd.	Insitor Fund SCA
Aavishkaar Goodwell India Microfinance Development Co. Ltd. II	Khosla Impact
Aavishkaar India II Co. Ltd.	LGT Venture Philanthropy Foundation
Aavishkaar India Micro Venture Capital Fund	Livelihood Investment Fund
Accion Gateway Fund	Lok Capital I
Acumen Fund	Lok Capital II
Ankur Capital Fund	MicroVentures Investments
Aspada Fund I	MicroVest
Bamboo Finance	NMI Frontier Fund
Bellwether Microfinance Fund	Oasis Fund S.C.A.
BlueOrchard Private Equity Fund	Omnivore Capital Ag-tech Fund
Charioteer Fund I	Opes Fund
Creation Investments Social Ventures Fund I	Opportunity International Australia
Creation Investments Social Ventures Fund II	Pearson Affordable Learning Fund
DWM Microfinance Equity Fund I	Pragati Fund
First Light India Accelerator Fund	responsAbility Ventures I
Frontier Investments Group	Rural Impulse Fund
Grassroots Business Fund	Rural Impulse Fund II
Gray Ghost Ventures	Samridhi Fund
Gray Matters Capital	Song Fund
Impact Investment Holding (Ennovent)	Unitus Equity Fund (Elevar)
Incube Connect Fund	Unitus Equity Fund II (Elevar)
India Financial Inclusion Fund	Unitus Impact Partners LLC
India Microfinance Equity Fund	Unitus Seed Fund
Indian Fund for Sustainable Energy	Upaya Social Ventures
India Inclusive Innovation Fund	



## List of Interviewees

### Investors

1. Aavishkaar
2. Accion International
3. Acumen
4. Aspada Advisors
5. Bamboo Finance
6. Caspian Impact Investment Advisor
7. Elevar Equity
8. IntelleGrow
9. LGT Venture Philanthropy
10. Lok Capital
11. Michael and Susan Dell Foundation
12. Omnivore Partners
13. Pearson Affordable Learning Fund
14. responsAbility
15. Small Enterprise Assistance Funds' (SEAF)
16. Seedfund
17. SIDBI Venture Capital Limited (SVCL)
18. Unitus Seed Fund
19. Upaya Social Ventures

### Sector Enablers

1. 91springboard
2. Aspen Network of Development
3. Entrepreneurs (ANDE)
4. Dasra
5. Indian Angel Network (IAN)
6. Intellectap Impact Investment Network (i3N)
7. International Finance Corporation- (IFC) Advisory Services
8. Sankalp Forum
9. Start-Up
10. UnLtd India  
Villgro

### Impact Enterprises

1. 3S Saraplast
2. Arohan Financial Services Pvt. Ltd.
3. Decentralised Energy Systems (I) Pvt. Ltd. (DESI Power)
4. Gram Oorja Solutions Private Limited
5. iKure Techsoft Pvt. Ltd.
6. mDhil Health Info Services Private Limited
7. Mera Gao Micro Grid Power Private Limited
8. Shree Kamdhenu Electronics- Private Limited (SKEPL)
9. Sudiksha Knowledge Solutions
10. Thirumeni Finance Private Limited (Varthana)
11. Waste Ventures India Private Limited.

**PUBLICATIONS BY INTELLECAP OF RELEVANCE TO THIS STUDY**



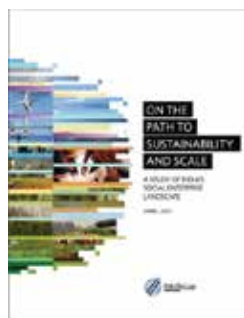
**Pathways to Progress** (April 2013) presents an overview of social enterprise activity in five critical needs sectors: Agribusiness, Clean Energy, Education, Healthcare and Water & Sanitation sectors and discusses some innovative strategies they adopt to reach under-served markets.



**Micro, Small and Medium Enterprise Finance Market in India** (August, 2012) estimates the size of the MSME finance market in India, identifies challenges and opportunities for private sector participation and potential interventions that can promote activity in this market.



**Understanding Human Resource Challenges in the Indian Social Enterprise Sector** (April, 2012) explores current people management-practices pertaining to recruitment, capacity building and retention in social enterprises. It is the first of its kind to provide insight into the nature of human resource challenges faced by social enterprises.



**On the Path to Sustainability and Scale: A Study of India's Social Enterprise Landscape** (April, 2012) presents an in-depth analysis of the state of the social enterprises including their geographic and sector distribution, business structure, stage of development, financial viability, funding sources and key challenges.



**Inverting the Pyramid series**

An attempt to capture the growth of the microfinance industry in India and track the efforts made, success achieved and challenges that remain. Three editions of the report published in 2007, 2008 and 2009 mapped the microfinance landscape in India

- I. Inverting the Pyramid: The Changing Face of Indian Microfinance (2007)
- II. Inverting the Pyramid: Indian Microfinance Scaling Against the Odds (2008)
- III. Inverting the Pyramid: Indian Microfinance - Coming of Age (2009)

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## **Facts and figures**

GIZ operates throughout Germany and in more than 130 countries worldwide. Our registered offices are in Bonn and Eschborn. We have more than 16,000 staff members around the globe, some 70% of whom are employed locally as national personnel. GIZ's business volume was about EUR 2.1 billion as at 31 December 2012.

## **GIZ India**

GIZ has been operating in India for 60 years. GIZ is working in areas in which demand in India's emerging economy is high and in which Germany is particularly strong. The three focus areas in India are Sustainable Economic Development, Energy and Environment. In the field Private Sector Development, GIZ is promoting small and medium enterprises, improving responsible business practices and promoting innovation and entrepreneurship.

## **GIZ and SIDBI together strengthen Responsible Enterprise Financing**

GIZ and Small Industries Development Bank of India (SIDBI) aim to increase the supply of financial services for sustainability-oriented investments of Micro, Small and Medium Enterprises (MSME). The joint Programme aims to support the integration of environmental, social and governance criteria into MSME-financing. It aims to promote the development of innovative financial services that promote investments and innovations by MSME that create environmental or social impacts. An increased access to risk capital is one key objective. GIZ and SIDBI support the market development for financial services for innovative MSME and "Social Enterprises". Increasing market transparency is one objective. This study is one contribution.

