IMPACT INVESTORS COUNCIL

TO: Shri Jayant Sinha, *Hon'ble Minister of State for Finance*

FROM: Amit Bhatia, *CEO-Impact Investors Council* (amit.bhatia@iiic.in)

DATE: 1 February 2016

Subject: Reset minimum SVF size to INR 10 Crores (paripassu with Angel Funds)

Dear Shri Sinha,

Impact Investors Council (IIC), the national association of all social impact investors in India,is enthused on the multiple efforts by different institutions in India and organs of the Government of India to define Social Entrepreneurship & Social Impact Investing, which will catalyze inclusive growth in the country.

We are writing to request you to Investment Funds Regulation, 2012 ("**AIF**") and ***relax the minimum investment limit from INR 20 crore to INR 10 crore to bring it at par with Angel Funds.***

Sir- we believe for multiple reasons, it is necessary to bring SVFs minimum size at par with Angel Funds, including but not limited to the following:

- Social Impact Investing is 10-15 years old in India vis-à-vis commercial Venture Capital and Private Equity industry, which is over 30 years old. As a younger industry, it should have norms at the starting point of an evolved industry
- Social Entrepreneurship trails regular Business Entrepreneurship (for example cumulative Social Impact Investments in India are US$ 2 billion vis-à-vis PE/VC investments of greater than US$ 100 billion) and therefore the opportunities and investment sizes are smaller. Therefore, these should be equated to regular Angel Investing
- Finally, social entrepreneurs and investors are addressing underserved beneficiaries, often at the bottom of the pyramid, with customers having lower propensity to pay for goods and services. The business sizes, local solutions and product/services on offer are necessarily of smaller ticket sizes (consider Micro Finance versus Commercial Lending). Therefore, it is important to keep the size of SVFs at the starting end of all kinds of Funds given this reality.

We very much hope you will give us a chance to explain our experience and the source of these definitions in person. We look forward to hearing from you,

Sincerely,

Registered Office
2B Ramkishore Road . Civil Lines
New Delhi 110054 . India

IMPACT INVESTORS COUNCIL

TO: Shri Jayant Sinha, *Hon'ble Minister of State for Finance*

FROM: Amit Bhatia, *CEO-Impact Investors Council* (amit.bhatia@iiic.in)

DATE: 1 February 2016

Subject: Introducing Accredited Investor Norms for AIFs/SVFs

Dear Shri Sinha,

Impact Investors Council (IIC), national association of all social impact investors in India is delighted with the multiple efforts by the Government of India to promote Social Entrepreneurship & Social Impact Investing.

IIC is requesting adoption of "Accredited Investor" definition by the Government as recommended by N.R.Narayana Murthy Committee under the aegis of SEBI in its report. However, IIC is of the opinion that the Committee's view that only last three year's income warrants the "Acredited Investor" status should be reviewed and **"Financial Assests" must be added as an alternate to the definition**.

The current Alternative Investment Funds, Regulation, 2012 ("AIFRegulations")mandates that minimum investment per investor should not be less than ₹ 1 crore in any Alternative Investment Fund ("**AIF**").This is to ensure that only sophisticated investors invest in such AIFs considering the risk involved in such investments. This high threshold, while effective in some cases, creates considerable concentration risk for investors at the lower end of the scale by reducing their diversification. The N. R. Narayana Murthy Committee under the aegis of SEBI too has recommended the adoption of "Accredited Investor" norms. They have recommended the following:

* * *

AIPAC Proposal for 'Accredited Investors'

In line with the global practice, it is proposed that the individuals who satisfy the following conditions should be recognised as accredited investors:

a) *Capable of identifying potential investments and their underlying risks;*

b) *Possess sufficient financial sophistication to take on the risks associated with the offerings; and*

c) *Have a sound financial track record i.e. reported total income exceeding ₹ 50 lakhs annually in three assessment years immediately preceding the assessment year in which the investment is proposed to be made.*

Further, it is also proposed to link the Permanent Account Number (PAN) of the investor in the electronic database of revenue authorities with the total income (including exempt income) of the investor in a manner such that it is easier to determine whether the investor qualifies as an accredited investor.

These financial products are to be sold only to Accredited Investor, who will be evaluated and vetted through a proper KYC process by registered KRAs or other depository participants (DPs).

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'Accredited Investors' for Angel investing

Today angel investments are not regulated and are usually private transactions that happen over the counter. The Accredited Investor framework can be utilized to move these transactions to a more regulated exchange framework. Angel investments made by these accredited investors into shares of start-ups dematerialized through a recognized depository should be permitted to avail exemption from Angel Tax [Sec.56(2) (viib)].

* * *

IIC proposed that the AIPAC proposal be amended as follows:

> *"c) Have a sound financial track record i.e. reported total income exceeding ₹ 50 lakhs annually in three assessment years immediately preceding the assessment year in which the investment is proposed to be made* ***OR have audited financial assets in excess of or equal to INR 50 Lacs at the end of the assessment year preceding the assessment year in which the investment is proposed to be made****."*

* * *

We believe that this amendment will allow investors who choose to book a loss in a given year or have become active investors post career or have accumulated financial assets but income shy of the INR 50 Lacs norm due to entrepreneurial / social / lifestyle reasons will also be able to participate in the AIF-economy and contribute to entrepreneurial activity.

We very much hope you will give us a chance to explain our experience and the source of these definitions in person. We look forward to hearing from you,

Sincerely,

Registered Office
2B Ramkishore Road . Civil Lines
New Delhi 110054 . India

IMPACT INVESTORS COUNCIL

TO: Shri Jayant Sinha, *Hon'ble Minister of State for Finance*

FROM: Amit Bhatia, *CEO-Impact Investors Council* (amit.bhatia@iiic.in)

DATE: 1 February 2016

Subject: Charities&Public Trusts to be allowed to be invest in Social Enterprises and Impact Funds

Dear Shri Sinha,

Impact Investors Council (IIC), national association of all social impact investors in India is delighted with the multiple efforts by the Government of India to promote Social Entrepreneurship & Social Impact Investing.

The purpose of this memo is to request you to encourage Charities and Public Trusts to invest in Social Enterprises and Impact Funds. Consequently, our specific requests are:

- Encourage investments by expanding scope of eligible investments by public trusts to include social enterprises and impact funds
- Tax-exempt organizations to be taxed on profit made out of investments in social enterprises (WE ARE NOT SEEKING ANY TAX EXEMPTIONS). However, the overall tax-exempt status ofthe organization should not be revoked due to such investments
- Subscription to equity of a not-for-profit company to be treated paripassu with grant-making transactions
- No restrictions on transfer or sale of shares held by public trusts

We hope that you will support our request given its win-win features: potential for **greater job creation** (through for-profit social start-ups), **greater inclusive development** (as social enterprises target underserved beneficiaries at bottom of the pyramid), and, **greater tax collections**(due to direct/indirect taxation of social enterprises and profits made by charities/public trusts). We are further elucidating our recommendations below.

Under the Income-tax Act, 1961 ("**ITA**"), in order to be eligible for tax benefits, the funds of the trust have to be invested in specified instruments. Thus, a large majority of charitable trusts can only invest in eligible and safe instruments like RBI bonds and cannot invest in securities like stocks. In certain cases, these trusts own stakes in various companies as part of a bequest or legacy and enjoy tax exemptions. While such trusts continue to hold shares in the company, they are not allowed to put in fresh money into subscribing additional shares of the company. As far as shares in companies are concerned, these are not part of the eligible investments by a charitable trust. In case the holdings of the trust are not as per ITA, then the trust becomes ineligible for tax benefits. In a situation when shares are given to a trust, it has a period of up to a year to dispose of them and remain eligible for availing of tax benefits. Further, a newly set up trust can only make grants to a social enterprise but is not allowed to hold equity in such social enterprises. In order to spur financial innovation in not-for-profit sector, public trusts should be allowed to invest in recognized social enterprises and profits on such investments may be subject to tax. Moreover, as public trusts are tax-

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exempt entities under the ITA, an institutional framework is devised in such a manner that only the profit-making activities of the trust is subject to tax. Such an arrangement will allow public trusts to simultaneously engage in charitable activities without any fear of losing its tax exemption. From the revenue department perspective, such an arrangement will also enable the government to earn higher tax receipts for the country.

Such exemption will have a crowding-in effect as social entrepreneurs will view the landscape of potential funding available to them. Allowing public trusts to finance social entrepreneurs will inevitably led to entrepreneurs beginning to assess their options and opportunities for both *non-profit* and *for-profit* investment models. Such a scenario will have a critical impact on how an enterprise is supported in the marketplace.

Moreover, Trusts in the West are increasingly acting as LPs or Limited Partners since they are often not operating Fund Managers. They are better off investign in Impact Funds who are able to better manage the process of sourcing deals, fundign entrepreneurs and managing investments. Therefore, we are recommending that Trusts and Charities should be allowed to invest indirectly through Impact Funds as well.

Based on the combination of factors discussed above, there is a need to allow public trusts to finance social enterprises and impact funds without losing its tax exempt status.

We very much hope you will give us a chance to explain our experience and the source of these definitions in person. We look forward to hearing from you,

Sincerely,

Registered Office
2B Ramkishore Road . Civil Lines
New Delhi 110054 . India

IMPACT INVESTORS COUNCIL

TO: Shri Jayant Sinha, *Hon'ble Minister of State for Finance*

FROM: Amit Bhatia, *CEO-Impact Investors Council* (amit.bhatia@iiic.in)

DATE: 1 February 2016

Subject: Allowing CSR pool for social impact investing

Dear Shri Sinha,

Impact Investors Council (IIC), national association of all social impact investors in India isdelighted with the multiple efforts by the Government of India to promote Social Entrepreneurship & Social Impact Investing. We are writing to specifically request availability of CSR funds for Social Impact Investing to unlease the creative abilities of businesses for social good. Our requests are:

- ***Section 135 of the Companies Act be amended to allow 'investments' by the companies towards their CSR mandate***
- ***Social business projects should be re-introduced in Schedule VII of the Companies Act***
- ***Schedule VII should allow for financing in a social venture fund***
- ***The profit earned through financing social venture fund to be re-ploughed into the CSR pool for further investments***
- ***CSR funds be allowed as technical assistance to fuel social innovation***

Sir- we are elucidating our recommendations above with the following detailed explanations:

- ***Social Business Projects under Schedule VII of the Companies Act***– the notification bringing in force Section 135 of the Companies Act, 2013 ("**Companies Act**") dealing with corporate social responsibility (CSR) significantly amended the list of activities enumerated under Schedule VII ("**Schedule VII**") of the Companies Bill, 2012. The effect of this amendment was that some activities as were provided in Schedule VII have been completely deleted; for instance, social business projects did not find any mention in the amended schedule. Social business projects forms the core philosophy of corporate social responsibility and Schedule VII of the Companies Act contained 'social business projects' among the list of various activities that a company could undertake. The Central Government vide notification dated February 27, 2014 made amendments to Schedule VII and deleted 'social business projects' from the list of activities enlisted thereunder. Although Section 467 of the Companies Act empowers the government to amend the Schedule through delegation, the power to amend under this section is meant to make simple alterations without affecting the legislative policies enshrined in the Companies Act. Deletion of 'social business projects' through the notification seems to override the CSR policy as envisaged under the Companies Act.

- ***Schedule VII to allow more participatory role for the industry***– while the Companies Act has institutionalized corporate social responsibility (CSR) in India through CSR provision, the participative role of industry in enhancing the contours of CSR to achieve social goals needs legislative support. The idea of social business in India is gaining a lot of traction with several **for-profit** and *not-for-profit* entities taking recourse to this model to create sustainability and growth. Given the quantum of funds that would be available for CSR spending, it is important that appropriate social business mechanisms are re-built within the Schedule to ensure that CSR engagement are sustainable and long-lived, and not focused merely on donor-donee relationship. It is, therefore important to realize the importance of social business as a tool to harness private capital for public good.

- ***Allowing companies to invest their CSR funds through the Alternative Investment Funds (Regulation), 2012***- The Alternative Investment Funds (Regulation), 2012 ("**AIF Regulation**") can play an enabling role for the spread of social business in India. The AIF Regulation may have a far-reaching effect as it can harmonize challenging issues of creating profit and yet providing goods and services to the masses at a sustainable cost. The AIF Regulation therefore is more like a hybrid structure having features of social responsibility (Schedule VII of the Companies Act) and muted returns on investment [section 2(v) of the AIF].

  "social venture" means a trust society or company or venture capital undertaking or limited liability partnership formed with the purpose of promoting social welfare or solving social problems or providing social benefits and includes-

  - *public charitable trusts registered with Charity Commissioner;*
  - *societies registered for charitable purposes or for promotion of science, literature, or fine arts;*
  - *company registered under Section 25 of the Companies Act, 1956/section 8 of the Companies Act, 2013;*
  - *micro finance institutions;*

  Social venture, as per section 2(u) of the AIF Regulation, may be defined as any set of activities that is formed with the purpose of promoting social welfare or solve social problems or provide social benefits. Thus, the AIF Regulation moves beyond the limited understanding of 'charity' as seen within the context of the CSR provision under the Companies Act. While under the Income-tax Act, 1961 ("**ITA**") and the Companies Act only three types of entities are permitted to carry out charitable activities i.e. public trust, society and section 8 corporation. The AIF, on the other hand, is more inclusive and recognizes the role of private sector in providing public good. Unlike the present Companies Act, the Regulation allows **for-profit** entities to carry out not-for-profit and charitable activities.

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- As per Section 2(v) of the AIF Regulation, "social venture fund" means an Alternative Investment Fund which invests primarily in securities or units of social ventures and which satisfies social performance norms laid down by the fund and whose investors may agree to receive restricted or muted returns. It is interesting to note that social business does not contemplate providing dividend to its investors whereas 'social venture fund' provides for restrictive or muted returns to its investors. Thus, objectives of AIF Regulation and Social Business largely converge. Moreover, allowing companies to finance social venture funds out of their CSR pool, many *for-profit* social enterprises will have access to capital and scale-up. The growth of social enterprises will go a long way in contributing to India's economy and spur direct and indirect taxes as well as inclusive development.
  - We further request that guidelines allow CSR pool to be deployed as "Technical Assistance" which is central to Innovations, through activities like Consulting, Research & Development, Design & Engineering, Pilots and Prototypes, etc. for Social Ventures, directly or through Social Impact Funds
  - We further request that should CSR pool be used for investments in for-profit social entrepreneurial activities, but on a non-returnable basis

In summary, based on the factors discussed above, there is a need to re-introduce 'social business projects' within Schedule VII of the Companies Act. We hope you will enourage the sector and help implement these recommendations. We look forward to hearing from you,

Sincerely,

Registered Office
2B Ramkishore Road . Civil Lines
New Delhi 110054 . India

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TO: Shri Jayant Sinha, *Hon'ble Minister of State for Finance*

FROM: Amit Bhatia, *CEO-Impact Investors Council* (amit.bhatia@iiic.in)

DATE: 1 February 2016

Subject: Defining Social Entrepreneurship & Impact Investing to catalyze Inclusive Development

Dear Shri Sinha,

Impact Investors Council (IIC), the national association of all social impact investors in India,is enthused on the multiple efforts by different institutions in India and organs of the Government of India to define Social Entrepreneurship & Social Impact Investing, which will catalyze inclusive growth in the country.

The purpose of this memo is to offer you IIC's definition of social entrepreneurship, which is endorsed by social entrepreneurs in nine (9) different sectors where our Social Impact Funds invest prominently (in alphabetical order):

- Affordable Education
- Affordable Healthcare
- Affordable Housing
- Agriculture & Agri-Business
- Financial Inclusion
- Livelihoods & Skills Development
- Renewable Energy
- Sanitation
- Water

We believe to truly focus on inclusive development and ensure that we use market mechanisms, social innovations and power of entrepreneurship to truly deliver social impact and development; we must define four terms: Social Ventures, Non-Profit Ventures, Social Enterprises and Impact Investors as follows:

A "social venture" is defined as a "non-profit venture" or a "social enterprise".

"**Non-profit Venture**" means a trust, society or company formed with the purpose of promoting social welfare or solving social problems or providing social benefits and includes,

i. public charitable trusts;
ii. societies registered for charitable purposes;
iii. company registered under Section 25 of the Companies Act, 1956/Section 8 of the Companies Act, 2013.

"**Social Enterprise**" means a trust, society or company or limited liability partnership, which satisfies all of the conditions below:

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2B Ramkishore Road . Civil Lines
New Delhi 110054 . India

i. **INTENTIONALITY**: It has the achievement of measurable, positive social impact as a primary objective under its memorandum and articles of association

ii. **SECTORAL FOCUS:** It carries on a business or activities in the areas of agriculture, affordable healthcare, affordable education, affordable housing, financial inclusion, renewable energy, water and sanitation, livelihoods, or any other area as may be notified by the Government for priority sector lending, but does not carry on business in the areas of Real estate other than affordable housing, Infrastructure, Tobacco, Alcohol, Weapons or Wildlife.

iii. **BENEFICIARY FOCUS:** It focuses primarily on promoting the social welfare of, or providing social benefits to, Specified Beneficiaries, who may act as producers, consumers, suppliers or employees in relation to the Social Enterprise. For the purpose of this provision, Specified Beneficiaries shall be persons with annual income of less than INR 3,00,000 (Indian Rupees Three Lakhs Only) (per beneficiary), or be individuals with physical disabilities and must comprise atleast 67% of all Beneficiaries.

iv. **IMPACT MEASUREMENT & REPORTING**: It makes a public commitment to and reporting of impact assessment and measurement.

An "**Impact Investor**" is a capital provider for social enterprises, registered as

i. AIF
ii. VCF
iii. DFI
iv. Others like Foreign Foundations, International Funding Agencies, etc. and satisfy all the following conditions:

    i. **INTENTIONALITY**: It has the achievement of measurable, positive social impact as a primary objective under its memorandum and articles of association

    ii. **SECTORAL FOCUS:**It carries on a business or activities in the areas of agriculture, affordable healthcare, affordable education, affordable housing, financial inclusion, renewable energy, water and sanitation, livelihoods, or any other area as may be notified by the Government for priority sector lending, but does not carry on business in the areas of Real estate other than affordable housing, Infrastructure, Tobacco, Alcohol, Weapons or Wildlife.

    iii. **BENEFICIARY FOCUS:** It invests primarily in promoting the social welfare of, or providing social benefits to, Specified Beneficiaries, who may act as producers, consumers, suppliers or employees in relation to the Social Enterprise. For the purpose of this provision, Specified Beneficiaries shall be persons with annual income of less than INR 3,00,000 (Indian Rupees Three Lakhs Only), or be individuals with physical disabilities and must comprise atleast 67% of all Beneficiaries in the Social Enterprise or Investee Company

    iv. **SUPER-MAJORITY:** It invests super-majority (67% or above) of total invested capital in social enterprises and additionally, super-majority (67% or above) of its capital deployed is via the Venture Approach to investing (i.e., investment in unlisted securities {equity, debt, and other financial instruments} of early and growth stage social enterprises)

    v. **IMPACT MEASUREMENT & REPORTING**: It makes a public commitment to and reporting of impact assessment and measurement.

***

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Dear Sir, it is equally important that social enterprise need a compliance and reporting mechanism that does not just speak in terms of shareholder value and cost-benefit analysis but also captures the delicate balance of its social purpose. It is therefore incumbent that there is a unified push to encourage social enterprises to develop strong compliance and reporting mechanisms that positively affect the social enterprise eco-system. We are proposing the following in this regard:

> "The social enterprise should be obligated to get an annual certification from their statutory auditors and the copy of which should be shared with the relevant government ministries that they satisfy the above definition and the certification, valid for one year, should make them eligible for Government's priority sector lending and other relevant programs. Moreover, each social enterprise must necessarily report the findings of this extra audit requirement in the Director's Report[1]. Further, given the time lag between registration of a social enterprise with the Registrar of Companies and its first statutory audit, it would be desirable to allow the facility of self-declaration wherein such companies could declare themselves as social enterprises from the very outset. Sir, this will become Government's first assessment of the number of social enterprises, beneficiaries and value of collective impact from the for-profit sector."

Sir- a decision by the Government in this direction can be a path-breaking development in promoting social enterprises and impact investing in India.

* * *

As you can see, the above are definitions, which have evolved from over 15 years of formal social entrepreneurship and (social) impact investing in India. We will be grateful if you can consider the above and help notify definitions acceptable to not only all the organs of Government of India and other institutions attempting the same; but also to the industry, i.e., both Social Enterprises represented through industry associations like MFIN, CLEAN, IHC, etc. and Impact Investors represented through IIC.

[1] Annual Report must include type/number of beneficiaries (current & last year) and an assessment of the value of the impact

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Moreover, we have attached herewith the changes that will be required in both SEBI's, and RBI's definitions to ensure nation-wide consistency (Annexures I and II respectively). As you know MSDE is attempting to make curriculum on Social Entrepreneurship and launch it across India. I am sure that a consistent definition will enable better curriculum development and superior delivery.

We very much hope you will give us a chance to explain our experience and the source of these definitions in person. We look forward to hearing from you,

Sincerely,

Registered Office
2B Ramkishore Road . Civil Lines
New Delhi 110054 . India

ANNEXURE I: SEBI's DEFINITION AND RECOMMENDED CHANGES

Issue	Current Rules / Legislation	Proposed Rules / Legislation	Rationale
2. Include "Social Enterprises" as a separate category in the Alternative Investment Funds Regulations, 2012 ("**AIF Regulations**")	Section 2(u) of the AIF Regulations defines a "social venture" as follows: Social venture means a trust, society or company or venture capital undertaking or limited liability partnership formed with the purpose of promoting social welfare or solving social problems or providing social benefits and includes, (i) public charitable trusts registered with Charity Commissioner; (ii) societies registered for charitable purposes or for promotion of science, literature, or fine arts; (iii) company registered under Section 8 of the Companies Act, 2013; (iv) micro finance institutions; Further, under Section 2(v) of the AIF Regulations, a "social venture fund" is defined as	Section 2(u) of the AIF Regulations may be amended as follows: A "social venture" is defined as a "non-profit venture" or a "social enterprise". "**Non-profit venture**" means a trust, society or company formed with the purpose of promoting social welfare or solving social problems or providing social benefits and includes, (i) public charitable trusts; (ii) societies registered for charitable purposes; (iii) company registered under Section 8 of the Companies Act, 2013 . "**Social Enterprise**" means a trust, society or company or limited liability partnership which satisfies all of the conditions below: i) It has the achievement of measurable, positive social impact as a primary objective under its memorandum and articles of association ii) It carries on a business or activities in the areas of agriculture, affordable healthcare, affordable education, affordable housing, financial inclusion, renewable energy, water and sanitation, livelihoods, or any other area as may be notified by the Government for priority sector lending, but does not carry on business in the areas of Real estate other than affordable housing, Infrastructure, Tobacco, Alcohol, Weapons or Wildlife. iii) It focuses primarily on promoting the social welfare of, or providing social benefits to, Specified Beneficiaries, who may act as producers, consumers, suppliers or employees in relation to the Social Enterprise. For the purpose of this	The AIF Regulations currently highlight only such Social Ventures, which are charitable in nature, with the exception of micro-finance institutions. However, there is a wide range of businesses engaged in agriculture, healthcare, low cost housing etc. which are for-profit entities with a primarily social motive. Recognizing such social enterprises as "social ventures" for the purpose of the AIF Regulations would enable investors to contribute capital to these socially beneficial activities. The proposed definition specifies conditions as to sectors, beneficiaries and social impact objective, to ensure that social businesses are the primary recipients of such funding. Moreover, explicitly highlighting for-profit social ventures or social enterprises will attract more capital, which allows India to bridge the social sector investment gaps.

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	follows: ~~s~~social venture fund means an Alternative Investment Fund which invests primarily in securities or units of social ventures and which satisfies social performance norms laid down by the fund and whose investors may agree to receive restricted or muted returns;	provision, Specified Beneficiaries shall be persons with annual income of less than INR 3,00,000 (Indian Rupees Three Lakhs Only) (per beneficiary), or be individuals with physical disabilities and must comprise atleast 67% of all Beneficiaries. iv) It makes a public commitment to and reporting of impact assessment and measurement. Section 2(v) should be amended to define a "social venture fund" as follows: Social Venture Fund means an Alternative Investment Fund which has more than two-thirds of its capital invested in securities or units of Non-profit Ventures and/or Social Enterprises and which has the primary aim of satisfying social impact norms laid down by the fund.	

ANNEXURE II: RBI's DEFINITION & RECOMMENDED CHANGES

Issue	Current Rules / Legislation	Proposed Rules / Legislation	Rationale
1. Define "Social Enterprises" for priority sector lending	The RBI has defined the priority sector as including agriculture, MSMEs, education, housing, export credit and others. Categorization of what constitutes micro and small enterprises under priority sector has been made as per the Micro Small and Medium Enterprises Development Act, 2006 ("**MSMED**") Act.	The RBI circulars on priority sector lending to be amended to include unlisted "Social Enterprises", which shall be defined as follows: "Social Enterprise" means a trust, society or company or limited liability partnership and which satisfies all of the conditions below: (i) It has the achievement of measurable, positive social impact as a primary objective under its memorandum and articles of association (ii) It carries on a business or activities in the areas of agriculture, affordable healthcare, affordable education, affordable housing, financial inclusion, renewable energy, water and sanitation, livelihoods, or any other area as may be notified by the Government for priority sector lending, but does not carry on business in the areas of Real estate other than affordable housing, Infrastructure, Tobacco, Alcohol, Weapons or Wildlife. (iii) It focuses primarily on promoting the social welfare of, or providing social benefits to, Specified Beneficiaries, who may act as producers, consumers, suppliers or employees in relation to the Social Enterprise. For the purpose of this provision, Specified Beneficiaries shall be persons with annual income of less than INR 3,00,000 (Indian Rupees Three Lakhs Only) (per beneficiary), or be individuals with physical disabilities and must comprise atleast 67% of all Beneficiaries. (iv) It makes a public commitment to and reporting of impact assessment and measurement.	Specific reference to Social Enterprises will make it easier for social businesses in low cost housing, water, sanitation etc. to benefit from priority sector lending. Under the current priority sector lending norms, there is no recognition given to social businesses, which may operate outside the specified areas (agriculture etc.), while still servicing low-income groups and weaker sections. Further, banks are typically reluctant to lend to MSMEs outside the specified sectors of agriculture, education, housing etc. which makes it difficult for several social businesses to receive credit. Finally, we wish to ensure that start-up, small and medium social enterprises secure priority sector lending as these need the most assistance and create most jobs and impact. We have excluded "listed" social enterprises.

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TO: Shri Jayant Sinha, *Hon'ble Minister of State for Finance*

FROM: Amit Bhatia, *CEO-Impact Investors Council* (amit.bhatia@iiic.in)

DATE: 1 February 2016

Subject: Eligible Borrower & End Use Definitions under ECB to include Social Enterprises & Impact Funds for social entrepreneurial activities

Dear Shri Sinha,

Impact Investors Council (IIC), national association of all social impact investors in India is delighted with the multiple efforts by the Government of India to promote Social Entrepreneurship & Social Impact Investing.

The purpose of this memo is to request you to consider expanding the Eligible Borrower and End Use definition to include Social Entrepreneurs, Social Entrepreneurial Uses and Impact Investors.

Sir, the framework for ECB, as a means to attract flow of funds from abroad continues to be a major tool to calibrate domestic policy towards capital account management in response to evolving macroeconomic situation. The ECB framework has been incrementally calibrated taking into account the emerging financial needs of the Indian entities and the macro-economic developments, by bringing more resident entities as eligible borrowers. In light of the government's push to spur micro-economic development, it is suggested that RBI covers 'social enterprise' and 'impact funds' funding social enterprises, under the automatic route as eligible borrowers. The Master Circular on External Commercial Borrowings and Trade Credits be amended accordingly:

"Social enterprises" engaged in the business or activities in the areas of agriculture, affordable healthcare, affordable education, affordable housing, financial inclusion, renewable energy, water and sanitation, livelihoods, or any other area as may be notified by the Government for priority sector lending and registered as societies, trusts, companies or limited liability partnerships are permitted to avail of ECBs.

"Social venture funds" means an Alternative Investment Fund which invests primarily in securities or units of social ventures and which satisfies social performance norms laid down by the fund and whose investors may agree to receive restricted or muted returns.

We very much hope you will give us a chance to explain our experience and the source of these definitions in person. We look forward to hearing from you,

Sincerely,