Impact Investing Reaches a Tipping Point in India

The history, status and relevance of impact investing to the current economic development landscape in India

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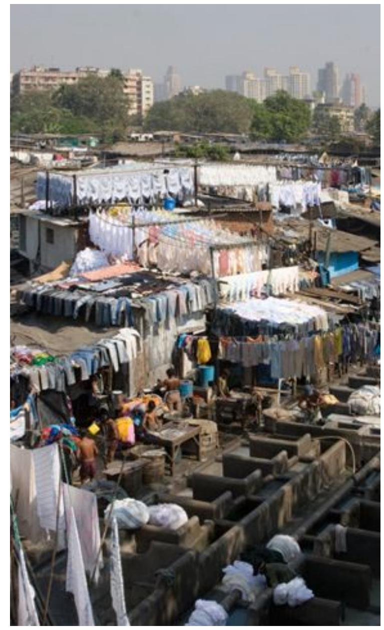
IMPACT INVESTING: THE GLOBAL CONTEXT

Impact Investing Is a Fast-Growing New Approach to Economic Development



Many stakeholders are getting involved these days, in impactful ways, trying to help out the world's poor. Governments implementing social programs, multi-lateral aid agencies, NGOs provide direct services and advocating for policy changes, and individuals volunteering their time, talent and resources are among the established approaches to propagate social advancement. Trillions of dollars are spent globally on such programs. On the other hand, the private sector also plays an increasingly important role as corporations adopt sustainable practices into their business decisions and seek broader, double and triple bottom line objectives. For the first time anywhere in the world, large listed companies in India are now mandated by the 2013 Companies Act to apply 2% of average net profits to corporate social responsibility (CSR) schemes. Existing CSR programs like Microsoft's Project Shiksha which helps government school teachers in India integrate information technology into their teaching modules have been very well received, helping millions over the past 7 years. There are too many other good examples to recite here.

Doing Well While Doing Good

Clearly, 'doing good' is in the air these days. What about 'doing good' while also 'doing well' financially? This question leads us to another relatively new fast-growing actor in this social impact space — the impact investor. Impact investors can be found among wealthy individuals, foundations, microfinance institutions, philanthropists, and venture capital and private equity funds, and now even modest income individuals — each of whom provides capital to fuel ventures that address social needs. These are often called "social businesses", but we like to focus on the business and the impact, so we call for-profit businesses that are solving social problems "impact businesses".

The gaining popularity of for-profit social businesses that are beginning to augment and/or replace traditional non-for-profit setups has fueled the growth of the impact investing sector. A 2012 Rockefeller Foundation report states that:

- Close to 2,200 impact investments worth INR 26.4k crores ($4.26 billion US) were reported globally in 2011, as opposed to ~1,100 deals in 2010.
- Close to INR 12k crores ($1.94 billion US) of impact investment funds came from North America.

- Emerging markets contributed substantially, with Latin America, Africa and India accounting for approximately INR 4.02k crores ($650 million US), INR 1.8k crores ($290 million US) and INR 1.44k crores ($233 million US) respectively.

The focus of this first of a four-part series is on understanding the global context around investing capital in businesses that deliver both profits and sustained social impact.

Impact Investing is Not Philanthropy

It is imperative to call out at this stage the distinction between philanthropy and impact investing. While most philanthropic capital requires social and environmental returns and no financial returns, impact investments are expected to provide financial returns as well as social good. The two should be viewed as distinct avenues for social impact, and not be classified as subsets. Impact investing, for instance, is not a form of charity and should not be classified as such when one ear marks funds for different areas, be it family, work or donations. In reality, it is another form of a traditional investment and should be considered as part of a diversified portfolio of any investor, social or otherwise. As Mr. Samit Ghosh, Founder and CEO, Ujjivan Financial Services says, "Impact investments are like an infrastructure investment, for example. If one is willing to have a longer term outlook for financial returns, impact investments can be just as good as any other financial investment."

As articulated by a recent Monitor Institute report, impact investors can be broadly classified into two groups – 'impact first' and 'financial first' investors. While the former approach investments with the primary aim of creating social or environmental good with a minimum financial threshold, the latter seek out sub-sectors that offer market-rate returns while achieving some social or environmental good. As is evident, financial returns can and should be a primary focus point for impact investments. Unitus Seed Fund is an example of a financial first impact investor. Impact investing is also different from the traditional form of Socially Responsible Investments (SRI) in that it proactively aims to create positive social and environment impact while also managing financial return and risk. In contrast, SRI intends to minimize negative impact of traditional corporate activities, thereby, contributing to the social well-being of the community at large.

According to a 2010 JP Morgan report, Impact Investing is emerging as a new asset class and is proving to have the sustainable and scalable impact the world needs today. They calculate that impact investments aimed at low-income families (earning less than INR 1.8 lakhs ($3,000 USD) a year and across housing, rural water delivery, maternal health, primary education and financial services sectors provide an INR 2,400k-6,000k crore ($400B to 1 trillion USD) invested capital potential for the next 10 years; the total profits from these investments can range between INR 1,080k-3,900k crores ($183-667 billion USD) . Agriculture and energy are also popular targets for impact investors.

In recent times impact investing and philanthropy have started to work hand in hand. For example, charitable foundations have started investing in funds (e.g. IntelleGrow raised 10 crores ($1.8M US) from the Michael & Susan Dell Foundation) and major global foundations such as the Bill & Melinda Gates Foundation, MacArthur Foundation, and Rockefeller Foundation have been applying billions of dollars in program related investments to fuel for-profit endeavors that align with their philanthropic programs.

A Deeper Look at Types of Global Impact Investors

There are multiple types of impact investors, each with different expectations of risk and return, and vastly different strategies and portfolio sizes:

- Development Finance Institutions (DFIs; e.g. multi-laterals such as IFC and investment organizations such as CDC or OPIC)
- Global foundations (e.g. Sorenson Impact Foundation, Ford Foundation)
- Large-scale financial institutions (e.g. J.P. Morgan, Deutsche Bank, and Citibank)
- Seed-stage equity (e.g. Mumbai Angels, Village Capital, and Unitus Seed Fund)
- Early/growth stage equity (e.g. Elevar Equity, Omidyar Network, and Aavishkaar)
- Specialized debt funds (e.g. Responsability and Oikocredit) provide investors with lower-risk, fixed income products with built-in social impact.
- Multinationals such as Starbucks and Cisco are adopting impact investing methods to improve their supply chain and in-market partnerships.

Another concept beginning to gain prominence is crowd-funding for social impact. Given that crowd-funding is inherently social, it is a great way to market and attract investments. SeedAsia, the first equity crowd-funding site based in China, recently launched in 2013. Milaap.org sources domestic and global funds for deployment in India. Kiva.org raises funds globally and operates in close to 70 countries though field partners. In the US, the JOBS Act is now making it more feasible for individual investors to buy equity stake in start-ups through crowd funding.

Measuring Impact

To ensure an environment conducive to investing, standardized ratings have been offered through The Global Impact Investing Ratings System ("GIIRS") and measuring metrics through The Impact Reporting and Investment Standards ("IRIS"). The GIIRS aims to enhance and make efficient the investment decision making process. In addition, in September 2009, J.P. Morgan, Rockefeller Foundation, and the United States Agency for

International Development ("USAID") launched the Global Impact Investing Network ("the GIIN") whose aim is to increase the scale and effectiveness of impact investing.

As is evident from the growing amount of activity taking place in this space, impact investing is clearly here to stay, and is spreading around our increasingly flat world. Going forward, there is a strong possibility that impact investing will become a widely embraced mainstream investment asset class which funds a growing number of businesses committed to sustainable social impact.

IMPACT INVESTING: INDIA TODAY

Delivering Rural & Urban Impact Through Impact Investing

In India today, there are many examples of companies placing their entire focus on the low-income rural population in India. One such example is Moksha Yug Access (MYA), a rural supply chain solutions company that aims to ensure livelihood enhancement of rural farmers by improving their productivity and market access. MYA has built a rural network that services more than 15,000 small farmers across 1,110 villages in the state of Karnataka. 'Milk Route' is their brand that provides benefits to both consumers and rural producers of milk by adopting better dairy farming techniques. This not only increases the value realization for farmers but also the nutrient content of the milk for the consumer. MYA growth is possible, in a large part, due to leading impact investors: Khosla Impact, Unitus Equity Fund, and Unitus Impact who have capitalized the venture.

Microfinance Institutions Have Led Impact Investing

Microfinance institutions ("MFIs") pioneered the concept of using capital at scale for social good through providing affordable capital to micro-entrepreneurs. MFIs in India can be traced back to 1992 when the Self Help Group (SHG)-Bank linkage was formally launched by NABARD. The SHGs were created and financed, first with philanthropic funds, then philanthropic-backed debt, then equity, then bank debt, then private equity, and finally public market funds including debt securitization.

SIDBI was one of the first institutions that identified and recognized MFIs as effective delivery channels. SKS Microfinance is another pioneer in this industry. Started in 1997, the firm is India's publically listed MFI with an aim to provide small loans to as many of India's rural poor as possible. BASIX is another stalwart of the Indian MFI industry. Known for its work in the rural livelihood sector; it was started with the aim of providing micro-credit to India's poor. Chennai-based Equitas, Kolkata-based Bandhan, and Bangalore-based Ujjivan Financial Services are other examples of MFIs which have successfully scaled.

Given the positive impact MFIs started to have on the lives of low-income families, financial capital started to flow to other sectors as well, including health, education, water and energy, which serve a basic necessity need of the BoP (see Business Standard, July 2013).

Obstacles to Impact Investing in India

According to research by Rockefeller Foundation, Impact investments in India attracted close to INR 550 crores in 2012 and are expected to grow at 30% per year. Private and angel investors have also sprung up over the past few years. These funding sources span the range of the venture – from early to growth and later stage. Lok Capital, Aavishkaar, Grassroots Business Fund, India Innovation Inclusion Fund (IIIF), Omnivore Capital, Elevar Equity, and Unitus Seed Fund are prominent Indian funds. Indian Angel Network and Mumbai Angels are some of the larger angel groups. More on the landscape from TechSangam, Oct 2011.

In addition to MFIs and impact investments, government involvement in development initiatives has been a staple. DFIs including IFC and others are effective government-sponsored investment vehicles. The National Skills Development Corporation (NSDC) is a good recent example of government involvement to ensure sustainable and scalable models in the field of vocational training and placements. NSDC is a Public-Private Partnership (PPP) owned by the government (49%) and the private sector (51%). It was started with an equity base of INR 10 crores and targets skilling/upskilling 50 crore people in India by 2022, mainly by fostering private sector initiatives. Gram Tarang, Babajob, iSTAR, and Caravan Crafts are examples of social businesses that NSDC has provided debt to.

Impact Investing Ecosystem

While there are many positives that can be enumerated, there are some obstacles that still need to be overcome in this space. As mentioned by Nisha Dutt, Director, Global Advisory Business, Intellecap, "India has a robust impact investing ecosystem that includes entrepreneurs, investors and enablers. Now it depends on how we make this ecosystem work effectively." Key elements of a healthy ecosystem include:

- Education and incubation resources
- Earliest-stage (friends/family/grant) risk capital
- Seed and growth capital
- Investment banking and transactional support
- Networks for business coordination and advocacy
- Opportunities for exits – secondary sales and M&A

Currently, most of the impact investments in the country are from international capital. Given the regulations, foreign investors can only put in equity (vs. debt) into funds or directly into social businesses. In addition, the merits of social impact investing have not been marketed as effectively as they can be. "If we are to believe this is a different asset class, then why it is different needs to be articulated. The trade-off with returns need to be offset with the kind of risks taken by these entrepreneurs, the new geographies penetrated by the enterprises and therefore, the social impact created by the venture.", says Nisha Dutt. The end objective is to attract more domestic investors into the sector. Unitus Seed Fund's new Indian rupee-denominated fund will help in this regard.

Steps are being taken to make the impact investing arena more investor friendly. Firstly, leadership Indian domestic investors are just beginning to emerge. Mohandas Pai and Ranjan Pai have each committed INR 5 crores to impact funds or individual deals in 2013. Swaminathan Aiyar and Narayan Ramchandran are also pioneering domestic impact investors. We expect this trend to accelerate as investors see the value of having both a financial and social impact return.

Secondly, funding is beginning to flow back into the venture debt sector. IntelleGrow raised INR 10 crores from The Michael and Susan Dell Foundation earlier this year. The MFI sector is also on the uptake with many private equity firms and development agencies investing in this space. For example, in September 2012, Bangalore-based Ujjivan Financial Services raised INR 45 crores ($7.2 million USD) of equity capital from IFC (see Business Standard, Nov 2012).

Thirdly, an India Impact Investors Council has been set up that aims to serve as a self-regulatory initiative to provide more information, standards and transparency for impact investing in the India context. This council comprises of nine members of the industry including Aavishkaar, Omidyar Network, Elevar Equity, and Unilazer Ventures. The expectation from this industry body will be to collaborate to provide a unified view of the space and the impact being made. Finally, new regulations could be game changers. For example, the SEBI has recently approved the creation of Alternate Investment Funds (AIF) which include 'Social Venture Funds'. AIFs are funds established in India for the purpose of pooling capital from Indian and foreign investors for investing as per a pre-decided social impact policy. Looking forward, if the New Companies Act of 2013 were to make for-profit impact investments and impact funds to also be recipients of the 2% profits mandated for CSR activities of profit making companies, it would dramatically accelerate the growth of impact investing from domestic sources.

IMPACT INVESTING: FUELING CHANGE IN INDIA

Impact businesses have been operating in India since the 70's. Hundreds of new ones are formed annually, and the best are showing great promise.

What is an impact business (or what some call a social enterprise)? In the words of Manish Sabharwal, CEO and Co-founder of Teamlease Services, "Isn't every company that creates jobs and does so without breaking the law a social enterprise?" Can Airtel be classified as an impact business? It has, after all, been instrumental in connecting India's BoP population with the rest of the country via its expansive telecom network. There is no right or wrong answer to these questions. In this part of our series on impact investing, we will look at some models that have fueled change for low-income families recently and the impact investors can have on them.

A New Mindset

In recent times, there has been a shift of mindset from pure not-for-profit enterprises/NGOs to sustainable and scalable market-based models to tackle poverty. A market-based approach focuses on people as consumers, suppliers, and producers and on solutions that can make markets more efficient, competitive, and inclusive so that the base of the economic pyramid can benefit from them (see World Resources Institute). However, attaining scale with these models is not a given. "*I find it uncomfortable that the businesses that are most vociferous about calling themselves social enterprises are often those that have not scaled or are unsustainable. Being socially impactful should be many things, but not an alibi for [lack of] scale or sustainability*", says Manish Sabharwal. Example domains where such organizations are reaching scale today include healthcare, rural livelihoods, agriculture, and education.

Sectors beyond Microfinance Where Impact Businesses Are Succeeding

Aravind Eye Care is a massively successful example of a market-based healthcare solution that has managed to scale. While it is set up as a not-for-profit, the business is sustainable and scalable, and has been since the 1970s. Aravind is an eye clinic headquartered in Tamil Nadu that provides low-cost or free surgeries to people of all income levels. Their business model is optimized for volume and quality. Among other innovations, they use para-skilled workers to do low-risk clinical and administrative tasks thereby increasing the productivity of the skilled doctors. Doctors at Aravind do more than 2,000 surgeries a year and the rate of surgical complications is half that of eye hospitals in Britain (see New York Times, Jan 2013).

Affordable Private Schools (APSs) are example of a *model* moving towards scaled impact. They generally operate as a hybrid dyad, with a nonprofit trust owning the school and a for-profit services company delivering education. While quality varies from group to group, for the most part they deliver a good quality education for as little as INR 300 ($5 USD) per month, per child, often surpassing any alternative public options. It is estimated that there are between 3 and 4 lakh (300-400 thousand) APSs in India. Over the past few years, enrollment in private schools across India has increased from 18.7% in 2006 to 28.3% in 2012. According to Pratham's annual ASER report, if this trend continues, by 2018 India may have 50% of children attending APSs even in rural areas. The Pearson Affordable Learning Fund is collaborating with Village Capital to operate the Edupreneurs accelerator to incubate and grow quality affordable private schools. The next advancement will be establishment of truly scalable and quality regional and national APS service organizations.

The village level entrepreneur (VLE) model is another good example of market-based models where the beneficiary is now also the supplier. A VLE network enables a new rural supply chain. The VLE acts as the 'last mile' distributor and serves two purposes. Firstly, he/she serves as a locally knowledgeable sales person to the rural consumer. Secondly, the VLE concept enables new livelihoods opportunities for low-income populations. ITC e-Choupal and HUL Shakti are established VLE models in the country. HUL Shakti today employs about 45,000 women across 15 states and is targeting 75,000 by 2015. Similarly, ITC e-Choupal services reach over 4 million farmers across 10 states. Well-run VLE models not only have social impact built into their businesses, but also aim to create financial value for all stakeholders in the supply chain.

Funding the Impact

As touched upon in previous articles, there are many avenues to source capital for impact businesses. For example, crowd-funding is emerging as a platform for bootstrap capital. It is still in a very nascent stage in India but is slowly gaining momentum particularly with young Indians who are looking at more ways to give back to society. Kiva.org launched its India operations in 2012, and Milaap, an India-focused online fundraising platform, recently raised its Series A investment of INR 6.6 crores in July 2013. Both provide small loans for education and life-improvement needs, as well as loans to early stage entrepreneurs and established small businesses that need extra capital to expand operations.

Seed and growth venture funds are providing capital to the most promising business ideas and teams. Unitus Seed Fund focuses on BoP Startups – high-growth potential startups which serve large low-income populations. The firm aims to accelerate the growth of early stage businesses by providing capital, support and connections. Some of the firms recent investments include iSTAR, a skills development platform that aims to bridge the gap formed due to the demand and supply mismatch, and Jack On Block, a new facilities management company that offers handyman and maintenance services for homes, offices, apartment complexes. While most investments in the past have happened through foreign investors, the growing interest among domestic investors seems to be shifting this trend slowly, but steadily.

Angel investor networks such as Indian Angel Network (IAN) and Mumbai Angels are investing in companies that offer financial as well as social impact. A recent example of the same is an INR 3 crores ($500,000 USD) investment by IAN in Gram Vaani, a technology startup that builds solutions for consumers at the BoP (see Startup Central, Jul 2013). Gram Vaani's flagship solution is called 'Mobile Vaani', which is a "voice-based social media network for rural citizens".

Catalytic "venture debt" for small and medium enterprises is also gaining traction with pioneers such as Kinara Capital and IntelleGrow. They both provide loans to small businesses which banks will not lend to due to their lack of profitability track record or perceived risk.

Given India's progress so far with impact investing, the country seems to be heading in the right direction. With the right amount of support, partnerships between foundations, NGOs, impact investors, and for-profit entities, the right ecosystem for sustainable social models can be inculcated and encouraged.

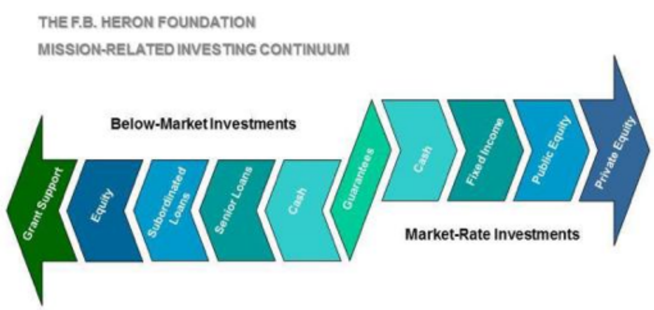
IMPACT INVESTING: PHILANTHROPY ACCELERATES THE ECOSYSTEM

There are huge opportunities for philanthropic capital and resources to complement and magnify the impact of impact investment capital.

While philanthropy aims to achieve social impact with no financial return, impact investing puts financial returns at par with, if not above, social impact. The vast majority of foundations and corporate social responsibility initiatives use grant-based models to create social impact. According to the 2011 Bain & Company Philanthropy report, philanthropy and private giving in the US and UK accounted for 2.2% and 1.3% of GDP, respectively. Americans give 9% of their annual household income to charity. In developing nations like India, this number is much lower with private-charity contributions at 0.3-0.4% of GDP. Indians contribute only about 1.5-3% of their annual household income to charity. Globally, we have seen many stories of philanthropy over the past 100 years. While organized philanthropy is still an emerging concept in emerging markets, HNIs and corporates in countries like India are definitely jumping onto the bandwagon too. The next question now is whether there is a case for philanthropy and impact investing to work together. While both have their distinct focuses (only social vs. financial & social), they have a shared end goal – to provide social improvements to society, help low-income families, support the environment, and generally provide opportunities to people in need.

Are Philanthropy and Impact Investing Compatible?

Why should philanthropy and impact investing be combined? Many would argue there is merit in keeping certain activities purely philanthropic without burdening them with expectations of returns and the vagaries of capital markets. However, a case can be made for philanthropists to join hands with impact investors.



For one, many existing investors may not be ready to bite the impact investing bullet all at once, especially given the unknown nature of the sectors and perception of risks. Philanthropic organizations, given the nature of their goals and vision, maybe more willing to make early-stage and risky investments associated with entering rural geographies or catering to the most challenging segments of society. Thus, there is a strong opportunity for them to create the path for such investments that eventually will encourage more investors to take part. A classic example of this is the microfinance industry which was jump started in this manner, with Ford Foundation and Unitus Labs being early supporters, long before commercial capital was available.

Recent Examples of Philanthropic Support of the For-Profit Impact Sector

We are already seeing examples of philanthropy organizations and impact investors working together. One example is the African Agriculture Capital Fund (AACF) funded by J.P. Morgan's Social Finance division in partnership with USAID, the Bill & Melinda Gates Foundation, the Gatsby Charitable Foundation, and the Rockefeller Foundation. This partnership aims to improve the lives of smallholder farmers in East Africa through impact investing.

Another example is the partnership between the Rockefeller Foundation, philanthropic investment firm Omidyar Network and strategic philanthropy foundation Dasra to launch an Impact Economy Innovations Grant Fund in India of INR 4.8 crores ($800,000 USD) in 2013. The aim of this fund was to develop the overall ecosystem of impact business models in India. Omidyar Network, an anchor investor in Unitus Equity Fund and Elevar Equity Fund II, is looking to invest INR 600-1,200 crores ($100-200 million USD) in India over the next 3-5 years, across both for-profit and non-profit ventures. This is another example of a global philanthropist, Pierre Omidyar (eBay founder) and his wife, investing to make a difference. Additional examples:

- Jim Sorenson (Sorenson Foundation, Sorenson Impact Foundation) has been a pioneering impact investor in India through both funds (Unitus Equity Fund) and direct investments (Unitus Capital, Kinara Capital) for microfinance, SME finance and other sectors.
- Bob Pattillo (Gray Ghost Ventures, Gray Matters Capital, Village Capital, First Light Ventures, IDEX Accelerator) has been a leadership philanthropic investor in India-focused impact investing starting with microfinance, technology for development, the impact investing ecosystem and more.
- Mike Murray (Crystal Springs Foundation), one of the co-founders of the Unitus Group, has been an active impact investor in India-focused early-stage impact venture funds including Unitus Equity Fund, Elevar Equity Fund II andUnitus Seed Fund, which has catalyzed bringing billions of dollars of capital into businesses serving BoP clients in India.
- Lisa & Charly Kleissner (KL Felicitas Foundation) have been active impact investors in many impact businesses in India, in the impact investing ecosystem in India (Dasra), and in developing Toniic, a network for angel impact investors.

Multiple Approaches for Philanthropy to Support Impact Investing

Philanthropic organizations can be involved in the impact investing space in multiple ways. They can provide capital directly to the impact business, they can support the ecosystem around impact organizations, and they can invest in/partner with a fund. They can also partner with government organizations (for example, NSDC) that provide impact investments. In addition, volunteering time, effort and advisory services is also a way to be involved.

The best mode of involvement is up for debate. For example, providing directly to the impact business can raise the question of whether philanthropic organizations have the ability to identify and support the most sustainable and scalable for-profit models. Given their work within the non-profit space, it may be better to partner with a fund that specializes in these investments.

For example, The Michael & Susan Dell Foundation invested INR 10 crore ($1.6 million USD) in IntelleGrow, a venture debt financing company for small and medium impact businesses. IntelleGrow will be accountable and responsible for identifying the enterprises to disburse loans to. Other foundations such as Rockefeller Foundation and Crystal Springs Foundation have invested in funds managed by experienced Indian fund managers. Other foundations such as KL Felicitas Foundation have chosen to invest directly and indirectly into impact businesses and to support development of the impact investing ecosystem.

Accelerating Beyond the Tipping Point

We see many factors driving impact investing forward in India, far beyond the great beginnings of the impact already created through funding of microfinance organizations:

- Impact businesses ranging from Aravind (eyecare) to MokshaYug Access (milk distribution) are growing and delivering impact at scale.
- The new Companies Act is driving a dramatic increase in spending and connections between large corporations and the NGO sector.
- Philanthropic donors and aid organizations are seeing that their impact can be amplified through partnerships with and grants to for-profit impact businesses.
- Capital is flowing into the sector again, from angel financing to seed investing to growth equity.

We're optimistic that the ecosystem of impact, including all of the above actors and more, will deliver profound improvements to the lives of Indians at the BoP on a sustainable and scalable basis for the foreseeable future.

FALL OF THE RUPEE IS NOT SO BAD FOR INDIA'S POOR — AND IS JUST FINE FOR IMPACT INVESTORS

There's no shortage of gloomy prognostication about the impact on Indian society as the rupee falls into global disfavor, with a value (in U.S. dollars) barely half its high point in 2008. We have a different perspective: There is a silver lining in this dismal cloud.

The situation could even be positive for those who are building businesses to meet the most fundamental needs of India's poor, and for those investing in such businesses.

At Unitus Seed Fund, we look at dozens of business proposals every month from entrepreneurs who create opportunities for consumers at the "base of the economic pyramid," or "BoP" to obtain economic self-reliance, education, and basic necessities. These new businesses depend largely on capital that flows into venture and private equity funds to fuel their growth.

With the Indian rupee's rapid depreciation and the likely economic slowdown, will impact investing capital from domestic and overseas sources continue to flow, or will it slow? For a number of reasons, we expect funds to increase, which means that more "impact businesses" – which we call BoP Startups – will be created and scaled up. The result should be more quality goods, services, and opportunities for India's poor

First, impact funds will flow because consumers will keep consuming. Yes, the increasing cost of oil and certain food staples will hit the one billion poor living on family income of less than $10 a day. The Indian government subsidizes many energy products to deflect the full impact on the BoP. These subsidies are likely to diminish due to budgetary pressures, but not disappear anytime soon.

India largely feeds itself for core food staples, so the domestic food market is only indirectly affected by the rupee's fall, again through the price of oil as an input to agriculture. India's government — controversially — has just expanded its food subsidies for up to three-quarters of Indians, blunting most food price changes.

Some poor consumers will undoubtedly see a decrease in income. But given that the kind of impact startups that investors target supply the most cost-effective basic necessities, education, healthcare, and skills training to consumers, I think these companies will continue to thrive. The purchasing priorities of these consumers will not change with respect to the most fundamental unmet needs of the poor.

So domestic funds flowing to impact opportunities should continue on their current growth trajectory, and international impact investors will be getting more company for their dollar, resulting in a net-positive outlook for impact opportunities.

Second, starting companies in challenging economic times is a good strategy.

Investors like investing in innovative, market-disrupting companies when the economy is weak. A company that can be successful serving low-income consumers in a challenging economic environment will truly shine when the economy turns around and growth rates increase. In weaker economic conditions, companies are forced to maintain even tighter cost controls, and they'll have generally lower costs of inputs, including labor.

Investors prefer challenging economic times vs. over-heated market, as anyone can attest who invested in US tech venture funds just before the "dot bomb" or in real estate just before 2008.

Summing it up: 70 or more rupees to the US dollar will cause plenty of pain for businesses that export to India. And it may cause a little pain for low-income consumers due to the increase in oil and oil-linked commodity prices.

But for local and global investors making a bet on the growing number of impact startups serving domestic market needs for education, basic necessities, and healthcare, a 70-rupee dollar is a fine thing, producing better BoP Startups and giving investors more company for their money.

INTRODUCTION TO UNITUS SEED FUND

It's time for a new approach to improving the lives of the 1 billion people living at the base of the economic pyramid (or "BoP") in India. Governments have largely left low-income populations behind. Philanthropy and aid "done-well" can have huge impact, but in aggregate have limits and many potential unintended consequences. Microfinance has helped millions, but also has many risks and limitations.

We see another tool to apply to this most vexing challenge of poverty reduction: **impact equity**. A strong team led by **Will Poole, Dave Richards, and Srikrishna Ramamoorthy** have launched Unitus Seed Fund (USF), a **India-focused venture investment fund** with offices in Bangalore & Seattle that intends to show that institutionally-rigorous approaches to fueling the "BoP startup" ecosystem can provide strong financial returns **and** provide opportunities to millions of low-income families on a sustained basis.

As of Fall 2013, USF has closed **over $10 million** in initial investment commitments and is now using these funds to expand its investment program. Founding investors include **Vinod Khosla**, **T.V. Mohandas Pai, Dr. Ranjan Pai, Mike Murray, Bob Gay and Pradeep Singh**.

Founding Investors in Unitus Seed Fund

Venture equity will not replace badly needed government services, philanthropy, international aid, or microfinance. It will however amplify the already-underway market-based responses to hundreds of millions of customers' needs, support sustained growth, and seek to deliver return to investors.

Case for Change – the Numbers. While India has experienced substantial growth and development over the past few decades, its one-billion-strong BoP population has not enjoyed many of the benefits of this growth. A number of statistics illustrate this, including:

- **Need for skills.** More than 1 million youth have their 18th birthday every month. Most of them do not have the skills to get a job despite many job openings.
- **Lack of access to education.** 35% of India's population is still illiterate, only 15% of students reach secondary school, and just 7% are graduated from secondary school.
- **Lack of key infrastructure.** In India, 220 million people lack access to safe water and 640 million people lack basic sanitation facilities.
- **Rapid economic growth.** India's gross domestic product has grown at an average rate of approximately 7.5% per year for the last five years and is expected to growth at about 5-6% per year for the next five years.

Unitus Seed Fund believes that there is a substantial opportunity to invest at the seed-stage in high-potential businesses that serve rapidly growing BoP populations in India.

Augmenting Aid with Investment. While government schemes and foreign aid continue to play a critical role in rescue and relief, aid has not addressed the significant supply-demand gaps in developing countries such as India. One reason is that the flow of aid has not kept up with economic growth and, realistically, cannot match growth of needful populations, on a global basis.

Philanthropy is vital to addressing needs where governments have failed and markets are not yet (or ever) able to intervene. We see a symbiotic role between impact venture investing and strategic philanthropy. ***In the long run, a business relationship — where each party needs one another — will be inherently more scalable and successful than that of giver-receiver***.

In summary, USF believes that aid (whether from governments or private philanthropy) is a ***necessary but insufficient*** approach for bringing economic development to developing countries. Investment is required to sustainably and scalably bring higher living standards in these countries. We intend to pioneer and prove market-based approaches that will help to fill this gap.

New premium retail brand employing rural BoP artisans	*Affordable rural kindergarten and tutoring centres*	*Facility services for homes and small businesses*
Asia's leading impact fundraising platform	*Job training for BoP vocation college students*	*Innovative rural products distribution platform*

Progress and Portfolio. Starting in 2012, USF has now made **eight seed investments** – averaging about $150k each. **Two of these companies have subsequently raised $1 million+ follow-on capital**. We receive frequent proposals from entrepreneurs who are eager for our support to grow their business. We have a **pipeline of over 20 potential investments** we're researching in sectors such as livelihoods, ed-tech, agriculture, healthcare and basic necessities including energy and farm inputs. We're selecting the best entrepreneurs who are running great businesses that can be profitably acquired by existing public or private entities which seek to secure their positions serving India's growing population.

Team and Velocity. USF uses a conventional venture firm model, with Srikrishna and associates operating from Bangalore, and Dave and Will in Seattle. We're unconventional in that we're **low-cost and moving fast, on track to make 30+ investments in the first 4 years**, with follow-on investments in the best. Dave and Will are leveraging best practices of the US venture community and applying their decades of operational experience to grow our portfolio. Sri and team are applying their experiences and relationships across the impact sector as well as those of our 30+ Venture Advisors to ensure great deal flow, support quick decision making, and provide ongoing support to our portfolio companies.

USF is affiliated with the Unitus Group (unitus.com), founded in 2000, which has significant experience, relationships and success in investing and raising money for early-stage and growth companies, primarily in microfinance but also in technology, renewable energy, healthcare, education, housing and other sectors. Unitus' focus is on businesses which serve large BoP populations in India, Southeast Asia, Africa and Latin America. Unitus has been operating in India since 2004.

Every one of the businesses Unitus Seed Fund invests in will have a ***viable plan to improve the lives of up to 100,000 families*** *within its first five years of operations. And they'll have a plan to be* ***profitable and scale*** *to reach larger populations at the same time.*

Visit http://usf.vc for more info