

19 February 2015

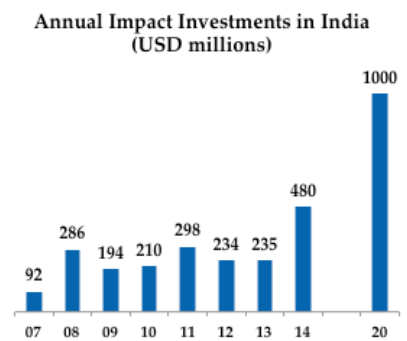
To
 Shri Arun Jaitley
 Hon'ble Finance Minister of India

Sub: 2015 Budget Representation from Impact Investors Council & Request for Meeting

Dear Sir,

The purpose of this Memorandum is to request your attention to a long-standing request from Impact Investors Council to recognize both Social Enterprises in India and Impact Investors, who invest in these social enterprises. This group of investors and entrepreneurs are committed to inclusive growth are committed to serving the under-served in India.

Impact Investors Council (IIC) represents 30+ Impact Investors in India. Cumulative impact investments in India have crossed US\$ 1.6 billion or ~INR 10,000 crores across 300+ social enterprises in sectors like Financial Inclusion, Affordable Education, Water & Sanitation, Agriculture, Affordable Healthcare, Clean Energy, Livelihoods, etc. We believe the sector can easily cross US\$ 1 billion in annual investments and US\$ 6 billion cumulatively by 2020 with your support.



IIC has already submitted its representation to your office, to Shri Jayant Sinha (MoS) and Shri Manoj Joshi (JS). We are **requesting a brief meeting** with you so that IIC Board and I can personally request you to consider the following three requests- (i) recognition of social enterprises and impact investors, (ii) review of SVF (social venture fund) regulations notified by SEBI under AIF Category I, and (iii) access of priority sector lending for social enterprises.

(i) Recognition of Social Enterprises and Impact Investors

| Issue | Current Rules / Legislation | Proposed Rules / Legislation | Rationale |
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| 1. Define "Social Enterprises" for priority sector lending | <p>The RBI has defined the priority sector as including agriculture, MSMEs, education, housing, export credit and others.</p> <p>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.</p> | <p>The RBI circulars on priority sector lending to be amended to include unlisted "Social Enterprises", which shall be defined as follows:</p> <p>"Social Enterprise" means a trust, society or company or limited liability partnership and which satisfies all of the conditions below:</p> <p>(i) It has the achievement of measurable, positive social impact as a primary objective under its memorandum and articles of association</p> <p>(ii) It carries on a business in the areas of agriculture, affordable healthcare, affordable education, affordable housing, financial inclusion,</p> | <p>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.</p> <p>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.</p> |

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| | | <p>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.</p> <p>(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 household incomes of less than INR 3,00,000 (Indian Rupees Three Lakhs Only), or be individuals with physical disabilities.</p> | <p>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.</p> <p>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.</p> |
| <p>2. Include “Social Enterprises” as a separate category in the Alternative Investment Funds Regulations, 2012 (“AIF Regulations”)</p> | <p>Section 2(u) of the AIF Regulations defines a “social venture” as follows:</p> <p>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,</p> <p>(i) public charitable trusts registered with Charity Commissioner;</p> <p>(ii) societies registered for charitable purposes or for promotion of science, literature, or fine arts;</p> <p>(iii) company registered under Section 8 of the Companies Act, 2013;</p> <p>(iv) micro finance</p> | <p>Section 2(u) of the AIF Regulations may be amended as follows:</p> <p>A “social venture” is defined as a “non-profit venture” or a “social enterprise”.</p> <p>“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,</p> <p>(i) public charitable trusts registered with Charity Commissioner;</p> <p>(ii) societies registered for charitable purposes;</p> <p>(iii) company registered under Section 25 of the Companies Act, 1956.</p> <p>“Social Enterprise” means a trust, society or company or limited liability partnership which satisfies all of the conditions below:</p> <p>i) It has the achievement of measurable, positive social impact as a primary objective under its memorandum and articles of association</p> <p>ii) It carries on a business 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</p> | <p>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.</p> <p>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.</p> <p>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.</p> <p>Moreover, explicitly highlighting for-profit social ventures or social enterprises will attract more capital, which allows</p> |

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| | <p>institutions;</p> <p>Further, under Section 2(v) of the AIF Regulations, a “social venture fund” is defined as follows: –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;</p> | <p>lending, but does not carry on business in the areas of Real estate other than affordable housing, Infrastructure, Tobacco, Alcohol, Weapons or Wildlife.</p> <p>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 household incomes of less than INR 3,00,000 (Indian Rupees Three Lakhs Only), or be individuals with physical disabilities.</p> <p>Section 2(v) should be amended to define a “social venture fund” as follows:</p> <p>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.</p> | <p>India to bridge the social sector investment gaps.</p> |
| <p>3. Allow FDI into Social Venture Funds under the automatic route</p> | <p>Currently investment into AIFs requires approval of the Foreign Investment Promotion Board</p> | <p>Social Venture Funds to be added to the list of investments permitted under the automatic route</p> | <p>Ease of investment</p> |

(ii) Review of SVF Regulations

| Issue | Current Rules / Legislation | Proposed Rules / Legislation | Rationale |
|--------------------------------|-----------------------------|------------------------------------|---|
| Minimum Fund Size | 20 cr | 10 cr | 10 cr is the standard currently available to Angel Funds. The reduction in fund size will be important for social venture funds, since the investment sizes are generally smaller and investments are often made at an early stage. |
| Minimum Investment into an SVF | Currently INR 1 crore | INR 10 Lac by an Informed Investor | <p>An ‘Informed Investor’ means any person who is capable of bearing the risks¹ associated with investment into a Social Enterprise or Social Venture Fund and satisfies the following criteria:</p> <p>(a) A person or body corporate having net worth of at least INR 1,00,00,000 having previous track record in investments, or the holding or subsidiary company of such body corporate²; or</p> |

¹ Please refer to Article 6 of the REGULATION (EU) No 346/2013 OF THE European Parliament and of the Council - 17 April 2013 on European social entrepreneurship funds; <http://eurlex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:115:0018:0038:EN:PDF>

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| | | | (b) An Alternative Investment Fund registered under these regulations as a social venture fund or social enterprise fund. And commits to investing a minimum of INR 10 lakhs in such social venture or social enterprise fund ³ Provided that in case of Informed Investors who are employees or directors of the social venture or social enterprise fund or employees or directors of the Manager, the minimum value of investment shall be INR 2,00,000 ⁴ |
| Tax Status | No Pass-Through | Pass-Through | Avoid double taxation and enables taxpayer to claim deduction for grants |
| Grants to SVFs investing in non-profits | No Tax Benefit | Grants to SVF for further grant to Non-profit Ventures should be treated the same way as other grants | Parity with other donation / grant options |
| CSR Funds | Currently Not Allowed | Allow | Currently, a direct application of CSR funds qualifies under the CSR definition, which also allows for pooling of funds. The SVF is only a pooling vehicle and CSR contributions to SVFs should be included in the CSR category, at least to the extent that they are allocated to Non-profit ventures. |

(iii) Access to Priority Sector Lending for Social Enterprises

| Issue | Current Rules / Legislation | Proposed Rules / Legislation | Rationale |
|---------|---|--|---|
| Access | No "Social Enterprises" in positive list | Include "Social Enterprises" in positive list | Allows greater access to institutional credit and funding |
| Sectors | Current priority list "Agriculture & Rural Development, Micro & Small Enterprises, Education, among others" | Include "Water & Sanitation, Clean Energy, Livelihoods, Affordable HealthCare, Affordable Housing" in addition to Agriculture, MSME. Education & Micro-Finance | Expands the scope of priority list to include activities that form part of the 'push' sector, which requires more investment and private sector intervention. |

Sir, we will be very grateful if you can address the needs of social enterprises and impact investors in the 2015 Budget. A small recognition from you will go a long way in enthusing the sector and reinforcing that you and your Government will support all initiatives committed to inclusive growth in India. We see ourselves as being partners to the Government and even bridging the social investment gap in India. We look forward to your support,

Thanking you,

Sincerely,

Amit Bhatia
Chief Executive Officer

³ Please refer to Article 6 of the REGULATION (EU) No 346/2013 OF THE European Parliament and of the Council - 17 April 2013 on European social entrepreneurship funds

⁴ Please refer to Article 6 of the REGULATION (EU) No 346/2013 OF THE European Parliament and of the Council - 17 April 2013 on European social entrepreneurship funds; Regulation 19A of SEBI (AIF) Regulations, 2012