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

DATE: 6 January 2016

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

Dear Dr. Panagariya,

I am the CEO of Impact Investors Council (IIC), the national association of all social impact investors in India and am writing to express our enthusiasm 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 the growth of Impact Investing in India.

Specifically, we have recently determined that due to enhanced focus by the Government on start-ups, social entrepreneurship and inclusive development, the following entities (in alphabetical order) are either defining social entrepreneurship or creating mechanisms to promote it and consequently will be referring to the definitions by others:

- DIPP (Department of Industrial Policy & Promotion) under Ministry of Commerce and Industry
- Ministry of Skills Development & Entrepreneurship
- MSME (Ministry of Micro, Small & Medium Enterprises)
- RBI for Priority Sector Lending
- SEBI (Securities & Exchange Board of India) for Social Venture Funds through N. R. Narayan Murthy Committee on Alternate Investment Policy Advisory Committee
- SIDBI (Small Industries Development Bank of India) for India Aspiration Fund

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 three terms: Social Ventures, Non-Profit Venture, 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,

- public charitable trusts;
- societies registered for charitable purposes;
- 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:

- INTENTIONALITY:** It has the achievement of measurable, positive social impact as a primary objective under its memorandum and articles of association
- 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.
- 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 household incomes of less than INR 3,00,000 (Indian Rupees Three Lakhs Only), or be individuals with physical disabilities and must comprise at least 67% of all Beneficiaries.
- 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

- AIF
- VCF
- DFI
- 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 household incomes of less than INR 3,00,000 (Indian Rupees Three Lakhs Only), or be individuals with physical disabilities and must comprise at least 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.

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. 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

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

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.

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,



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")	<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 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</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;</p> <p>(ii) societies registered for charitable purposes;</p> <p>(iii) company registered under Section 8 of the Companies Act, 2013 .</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 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.</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</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 India to bridge the social sector investment gaps.</p>

	<p>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>physical disabilities and must comprise at least 67% of all Beneficiaries.</p> <p>iv) It makes a public commitment to and reporting of impact assessment and measurement.</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>	
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ANNEXURE II: RBI's DEFINITION & RECOMMENDED CHANGES

Issue	Current Rules / Legislation	Proposed Rules / Legislation	Rationale
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> <ul style="list-style-type: none"> (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 household incomes of less than INR 3,00,000 (Indian Rupees Three Lakhs Only), or be individuals with physical disabilities and must comprise at least 67% of all Beneficiaries. (iv) It makes a public commitment to and reporting of impact assessment and measurement. 	<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> <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>