

25 June 2015

Sir Ronald Cohen
Chairman of the Social Impact Investment Taskforce
42 Portland Place
London W1B 1NB, UK

Dear Sir Cohen,

Thank you for your letter dated 8 May 2015. Further to my acknowledgement and gratitude on behalf of IIC (Impact Investors Council in India), I'd like to formally thank you once again for the offer to apply for the membership to the Global Steering Committee on Impact Investment (GSCII) or the Committee. We are delighted that you and the Social Impact Investment Taskforce have decided to add five new markets to the current G8 group and we hope that the Committee finds India's impact investment history, current activities and vision compelling. IIC is confident that given India's unique evolution in the Impact Investing world, we'll have a lot to contribute and learn from the movement. Before we describe India's impact investing eco-system, we'd like to share the definition of impact investing agreed by IIC and its members. All data in this document is based on this definition of impact investing.

IIC thinks of Impact Investors as for-profit investors, with super-majority of their investments (i.e., greater than or equal to 67%) in social enterprises. "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 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.

In light of our definition of Impact Investing, please find below IIC's views on the three aspects requested for the application:

- I. Description of India's impact investment ecosystem
- II. Summary of the regulatory environment
- III. Our national impact investment body (IIC) and its vision

We have described each of these elements in detail in the next three pages:

I. India's Impact Investing Eco-System

India has a 15 years history of impact investing, much before the phrase was coined. With approximately US\$2 billion in impact investments (excluding infrastructure) currently, in over 300 enterprises, India's ~50+ Impact Funds are a vibrant group of socially conscientious venture capitalists who have built the eco-system which has allowed this nascent industry to blossom. Specifically, the status of the eight key eco-system segments in India is as follows:

- ¶ **Impact Investors:** IIC recognizes social and environment investment-making institutions, whether independent Impact Funds or Government-owned institutions, as Impact Investors. However, the space is dominated by ~50 Impact Funds, of which 23 are members of IIC. The remaining Impact Investors are either very small funds (<\$10 million), based outside India or Government affiliated and will be gradually brought on board.
- ¶ **LPs and Sources of Capital:** Cumulative Impact Investments in India is ~US\$2 billion with 57% of capital coming from traditional VCs/PEs. DFIs or Development Finance Institutions (like IFC, DFID, KfW, FMO, ADB, Proparco, CDC, DEG and OPIC) are second and the largest LPs in India for Impact Funds. Foundations (e.g., Omidyar and MSDF) and high net-worth individuals (HNIs) account for the balance. Moreover, ~90% of the capital is from overseas and it is IIC's resolve to grow the domestic base of LPs.
- ¶ **Range of Instruments:** Equity continues to be the dominant form of impact investment and accounts for 76% market share of all investments. Debt Funds have a very small market share and Social Impact Bonds have yet to make a beginning in India. On the contrary, 75% of DFI investments in (mostly) infrastructure are Debt!
- ¶ **Social Enterprises:** India has a very vibrant social enterprise scene with thousands of enterprises in different growth stages and over 300 receiving investments from Impact Funds. However, 75% of all investments have gone to Financial Inclusion (FI) sector- 57% in Micro Finance even as FI accounts for only 21% of all social enterprises. HealthCare, Agribusiness, Clean Energy and Livelihoods rank next as popular investment sectors.
- ¶ **Incubators:** IIC believes that Incubators are important eco-system enablers and once again, numerous impactful players dot the Indian landscape: CIIE (IIMA), Villgro, Dasra, Ennovent, UnLtd, StartUp Wave, etc.
- ¶ **Intermediaries:** India has seen a mushrooming of a variety of Consultants (e.g., Intellectap), Investment Banks (Unitus Capital), Law Firms (e.g., Nishith Desai & Associates), Capacity Builders (e.g., GIZ), Educational Institutions (e.g., EDII), Research Organizations and Credit Rating Agencies as intermediaries enabling the impact investing market-making.
- ¶ **Industry Chambers / Associations:** IIC also considers other industry chambers and associations, especially the following as important eco-system players: (i) **IVCA:** Indian Private Equity & Venture Capital Association is the three decades old industry association of all VCs/PEs which have cumulatively invested over US\$100 billion in India; (ii) **TiE:** The Indus Entrepreneurs is world's largest entrepreneurship network and New Delhi, world's most vibrant chapter; (iii) **MFIN:** is Government of India recognized self-regulatory body for Micro Finance Institutions whose members receive three-fourth of all

impact investments in India; (iv) **NASE**: is National Association of Social Enterprises; (v) **IAN**: is Indian Angel Network, leader amongst the Angel community- others being I3N and Mumbai Angels, etc. Most recently, IIC created a collaborative forum, where all the five associations spoke alongside IIC with the Government of India on several tax and regulatory reforms.

- ¶ **Regulators**: India has three key (and many more) Government agencies who regulate the impact investment environment- the Ministry of Finance (MoF), the Reserve Bank of India (RBI), and, the Securities & Exchange Board of India (SEBI). Ministry of Corporate Affairs and Ministry of Micro, Small & Medium Enterprises play a secondary role. IIC actively collaborates with all the key agencies and over the past year, our Advocacy efforts have yielded progressive results, which are described in the next section in some detail.

As you can judge from the above eight key eco-system segments, India is a vibrant impact-investing destination with presence of most eco-system enablers, evolving in a symbiotic relationship with each other.

II. India's Impact Investing Regulatory Environment

India's Impact Investment success story, well in the making, may read more like the Information Technology or Software Industry stories in times to come; especially since there was no significant regulation or recognition of the those industries too by the Government, which allowed them to grow at their own rate, on their own merit. While IIC wants and advocates greater recognition and collaboration, as of today, "Impact Investing" is not a formal industry for the Government and only a sub-set of regular VC/PE industry. Therefore, Government regulations are limited to investment vehicles and tax regime around bringing impact capital to India. Investors require registration by SEBI or have an overseas investment arm, frequently juxtaposed with a domestic advisory services for day-to-day management. IIC has managed several small wins in working with the Government to date:

- ¶ **MoF**: IIC secured a tax pass-through for AIF 1 (SVFs and Impact Funds) from the Government in the 2015 Annual Budget, which allows direct taxation in the hands of the LPs. We believe that this was also enabled by the fact that the current Minister of State for Finance in India, Shri Jayant Sinha, was a former Impact Investor- Chair of Omidyar India, a rare coincidence for the industry.
- ¶ **SEBI**: In working with SEBI, IIC has been able to clarify definition of Social Venture Funds and our members helped create these regulations in collaboration with SEBI.
- ¶ **RBI**: Most recently, in April 2015, IIC was able to secure a broader definition of Priority Sectors- the closest Government of India definition, to Impact Sectors which allowed wider coverage in affordable Housing, Agri-Businesses, Education, etc.

IIC maintains regular access and great collaborative relationship with Government officials to ensure that the industry can grow. Our biggest task at hand continues to be getting Impact Investment formal recognition as a separate asset class and Impact Funds & Social Enterprises recognition distinct from their current meta grouping with VCs/PEs and Corporations respectively.

III. India's National Impact Investment Body: IIC

IIC or Impact Investment Council, as an idea came into existence in 2013 and was formally registered as an entity in 2014. The first employee of IIC, its CEO Amit Bhatia, came on board in October 2014 and consequently, we have a brief formal history, although a 2-year informal history. IIC has a clear (and evolving) vision and its current activities are clustered around four areas of focus through three specific sub-committees:

- ¶ **Membership:** IIC clearly wants to grow its membership base from current 26 to 100+ in 2 years. We want to be inclusive of all Impact Funds and other stakeholders like LPs, Social Enterprises, Intermediaries, etc.
- ¶ **Research:** IIC has a bold agenda on social impact measurement and is actively collaborating with research institutions (MIT/Harvard) to move the needle on this count in cognizance of general industry developments (GIIRS, IRIS, PRISM, etc.) IIC aspire to lead the world in social impact measurement and JPAL's successes in India have emboldened our vision.
- ¶ **Advocacy:** IIC's first few initiatives have been in this front and we continue to nurture our privileged relationships with MoF, SEBI, RBI, etc.
- ¶ **Branding & PR:** Finally, the Executive Council of the IIC has been working with the CEO in building both IIC and Impact Investing brand in India. Our PR for the industry led to a recent 6-page story in Business Today on Impact Investing, which was widely read and well received.

We are upbeat and highly optimistic on how IIC will provide a fillip to the Impact Investing industry in India and the underlying buzz in India as keeping us very engaged. We have promised the nation that we will grow India's Impact Investing industry from a cumulative US\$ 2 bn currently to US\$ 6 bn by 2020! We have a lot to do and believe global collaboration will surely help.

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In summary, IIC is delighted about India's potential membership of the proposed enlarged steering committee of 13 nations (8+5) and hopes to contribute its insights, share its excitement and learn from the global industry. We are confident that India with its large population, immense social challenges and creative entrepreneurial and impact investing forces solving these challenges will be Ground Zero in the world's campaign for solutions which juxtapose market forces and good intent. We look forward to hearing from you.

Sincerely,



Amit Bhatia
CEO- Impact Investors Council