22 December, 2017

The Hon'bl Minister of Finance Shri Arun Jaitley
Ministry of Finance
North Bloack,
New Delhi, Delhi 110001

Dear Sir,

Representation to GOI to Enable Investment of CSR Funds in SEBI-Registered Category 1, Social Venture Funds

The Impact Investors Council represents nearly 40 social impact funds and other eco-system players including banks. Social Impact Funds are private equity funds, but differ in one significant respect, namely that they invest for social good typically in a manner consistent with the Government's CSR objectives.

The current model for social support enunciated in s. 135 of the Companies Act, 2013 is an ' Expenditure Model'. This seems to be working well and we support and commend the Government for this important initiative.

However, we would like to recommend that the Government amend s.135 to also enable an ' Investment Model' under the social impact asset class for the allocation of CSR funds by the companies covered under s.135.

The impact funds we are referring to are the SEBI Registered Category I AIFs which are included in the SEBI AIF Regulations, 2012 as ' Social Venture Funds'.

The recommended 'Investment Model' of CSR has several benefits. It will ultimately lead to larger benefits to the underprivileged beneficiaries.This is due to the advantages of the Investment Model such as:

(i) Pre-investment due diligence of social ventures which are CSR compliant;
(ii) Ploughback i.e. reinvestment of funds into a growing pool of capital available for the beneficiaries both from the social venture funds and their well-performing portfolio social enterprises;
(iii) Pooling of funds by various investors enabling the undertaking of more scalable social ventures. This is important because it is only with scale that India can rapidly address the social deficiencies;
(iv) Pooling will also enable economies of scale in the management of CSR funds;

(v) Professional management of pooled funds by talented fund managers is now the accepted practise in the capital markets worldwide, including India; and

(vi) Regulation of the funds under SEBI's existing Alternative Investment Funds(2012) Regulations.

These and other benefits as well as the manner of functioning of the social venture funds along with illustrations are given in the attachment.

We are attaching the following documents for your reference and kind consideration:

1. A detailed introduction to social venture funds, illustrative investments made by social venture funds and the detailed rationale, justification titled as 'Introduction section of the CSR investments';
2. Recommended draft amendments to Section 135 titled as 'Representation to channelize CSR Funds through SEBI-Registered Category I AIFs.

May our Association request you for a meeting in order to clarify any points first hand?

We thank you very much for your consideration.

Best regards,

Respectfully,

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Director, Impact Investors Council
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Mr. Arvind Mathur
Non Executive Director
Impact Investors Council

Introduction to Impact Investing from Impact Investor's Council(IIC)- (s.8 registered Association of Impact Investing Funds)

Note on Recommendation to Enable Allocation of CSR Funds to Impact Investment Funds

A. Introduction

The Impact Investors Council(IIC) congratulates the Government for its CSR policy which has helped mobilise over Rs. 20,000 crores since its inception.The members of IIC would like to support this initiative and the drive for high-quality CSR spending through the medium of socially-oriented Alternative Investment Funds which have been registered with the Securities and Exchange Board of India.

India is considered a breeding ground for (social) impact investing due to the enormous size of its demography and the unfulfilled basic demands for social and economic services.

B. Nature of Impact Funds

Impact investments are made by professionally managed SEBI-registered domestic Alternative Investment Funds(AIFs)- called Social Venture Funds- and by international impact funds,with the intention to generate social and environmental impact and thereby contribute to enhanced social welfare and economic development. Impact Investing Funds in India have supported more than 300 social enterprises till date.

The concept of impact has been well accepted by Government of India bodies. Besides SEBI , SIDBI is also an active investor in impact investing funds.

C. Dimensions of Social Entrepreneurship and Impact Investing

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 offerthe dimensions of investments which considered social entrepreneurship. These dimensions, which are consistent with the Government's CSR policy, are endorsed by social entrepreneurs in twelve (12) different sectors where our Social Impact Funds invest prominently (in alphabetical order):

- Affordable Education
- Affordable Healthcare
- Affordable Housing
- Agriculture & Agri-Business
- Clean Energy Access
- Climate change infrastructure
- Disabilities
- Financial Inclusion
- Livelihoods & Skills Development
- Rural Infrastructure
- Sanitation & Waste Management
- 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:

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 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 household incomes of less than a threshold prescribed annually by the investment committee of the SEBI-registered Category I social venture funds making the investment or be individuals with physical disabilities.

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

“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.”

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

i. AIF
ii. VCF

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

iii. DFI
iv. NBFC
v. Individuals and
vi. Others like Foreign Foundations, International Funding Agencies, FDI, etc.

and have the following dimensions:

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 a threshold prescribed annually by the investment committee of the SEBI-registered Category ! social venture funds making the investment or be individuals with physical disabilities.

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.

D. Meeting the Resource Shortage for Socially-Oriented Projects

Social Sector businesses provide an invaluable social service but face resource constraints due to the low,below-market, rate of returns since their customers have very low per-capita income. There is a dire need to supply additional capital to social businesses, particularly in a country like India .

Impact investment funds help meet this resource shortage by mobilise long-term capital and supply this capital to resource-short socially-oriented enterprises. Impact investments are made by Category 1 Social Venture Funds which are SEBI-registered Alternative Investment Funds(AIFs) established with the intention to generate social and environmental impact.The AIFs, in turn, invest in social enterprises which benefit the lower strata of society in a variety of ways consistent with the goals and principles of Corporate Social Responsibility (CSR).

E. Types of Social Businesses & Other CSR-oriented Ventures

Appendix I provides an illustrative list of impact investments made by impact funds in India. Impact investment funds provide capital to address the world's most pressing challenges in sectors such as sustainable agriculture, renewable energy, conservation, microfinance, and affordable and accessible basic services including housing, healthcare, gender inequality and education.

The projects in Appendix I show that investment activities of the socially-oriented AIFs cover many of the activities enunciated in Schedule VII of the Companies Act 2013:

•Human development including gender equality, women empowerment, low-cost preventive health care, opportunities for the differently abled
•Economic development with inclusive growth
•Social welfare
•Environment and Inclusive Sustainable Development

F. Alignment of Impact Investing Funds with the GOIs CSR Policy

By undertaking investment in these activities, socially-oriented AIFs are aligned with the Government of India's (GOI) CSR Policy.

As has already been enunciated by the Government, the following expenditures will not qualify as CSRand which will not be undertaken or claimed by Socially-oriented impact AIFs:

"The CSR projects or programs or activities that benefit only the employees of the company and their families shall not be considered as CSR activities in accordance with section 135 of the Act.

One-off events such as marathons/ awards/ charitable contribution/ advertisement/sponsorships of TV programmes etc. would not be qualified as part of CSR expenditure. •

Expenses incurred by companies for the fulfilment of any Act/ Statute of regulations (such as Labour Laws, Land Acquisition Act etc.) would not count as CSR expenditure under the Companies Act. •

Contribution of any amount directly or indirectly to any political party shall not be considered as a CSR activity.

G. Operating Method of Impact Funds (referred to as Social Venture Funds included in SEBI's Category 1 Alternative Investment Fund (AIFs) Regulations)

The operating method of AIFs are summarized below:

Fund Structure: AIFs are a pooling vehicle which mobilise long-term capital from a range of investors including institutions, high net worth individuals and corporates.Besides third-party investor ,the sponsor/manager of the Fund also invests in the Fund.

Fund Life: Their typical tenure ranges from 5 to 7 years. India-domiciled AIFs are registered with SEBI as Category 1 AIFs.

Eligible Investments: AIF's typically identify enterprises which engage in socially beneficial activities of the type mentioned in Schedule VII of the Companies Act, 2013.

Due Diligence: They conduct due diligence to help ensure the capabilities and business practices of the investee enterprises are sound.

Investment Approval & Investment Contract with Investee: Typically, each investment is approved by an investment committee of the Fund after which an investment contract is signed with the investee social enterprise.

Post-Disbursement Care and Monitoring: After the investment has been disbursed, the fund manager pays periodic visits to the investee company to monitor its operations and provides necessary guidance, where appropriate, mostly through its role as a nominee director.

Follow-on Investing in Further Rounds of Capital Raising: If needed and justified by performance, the AIF provides additional capital in subsequent rounds to the investee enterprise to help it grow and scale its operations and reach a larger number of social beneficiaries.

Exits& Recycling: Ultimately the fund manager exits the investment by selling it. The funds raised by exits are returned back to the investor. The funds are then again recycled back into new AIFs managed by the same or other fund managers.

This investment methodology for investing in socially-oriented enterprises is currently at a nascent stage and needs to be encouraged by the Government given its consistency with the Government's CSR policy.

A more detailed description of the process and regulatory framework can be found in a publication titled ***Social Impact Investing in India*** available at

http://www.nishithdesai.com/fileadmin/user_upload/pdfs/Research_Papers/Social_Impact_Investing_in_India.pdf

H. Recommendation

In view of consistency of socially-oriented funds with the CSR policy, the recommendation of the Impact Investors Council is that the Government should allow companies which make CSR expenditures to be able to invest in SEBI-registered Category I AIFs as an eligible category. See Representation detailed note.

Appendix I

The IIC community in India has supported more than 300 social enterprises till date. Some prominent ones are:

1. HR Foods (Osam Dairy) - http://osamdairy.com/ Osam procures every drop of milk from a network of trained dairy farmers. The rigorous training is supplemented by quality checks at the time of procurement on a daily basis through Milk Analyser which checks the milk on pre-defined parameters.

2. Asirvad Microfinance Private Limited is an NBFC-MFI registered with the RBI and received its NBFC-MFI license on 4th October 2013. Asirvad began its microfinance operations in January 2008 under Mr. S.V. Raja Vaidyanathan, who is the current Managing Director. Asirvad operates in 5 states & 1 UT namely Tamil Nadu, Kerala, Karnataka, Odisha, Gujarat & Puducherry through a network of 141 branches with a portfolio size of INR 3,220 million as of 31st March 2015. Manappuram Finance Limited recently acquired a majority equity stake of 85% through acquisition of 71.14% of existing shares well as an additional equity infusion of Rs. 630 mn.

3. **Drishti** offers quality, affordable eye care services covering primary and secondary eye care in underserved markets with an operating model that is designed to cover distributed populations. Founded in 2011 by Kiran Anandampillai, the company currently has operations in Devanahalli (~35 kms from Bengaluru city) and adjoining areas. With the support of Lok Capital, a member of IIC, it has reached out to 24,800 patients, out of which 10,100 are women. Drishti also provides its services through mobile camps in rural villages. About 88% of the surgeries are free of cost while paid surgeries are affordably priced at INR 6000. Drishti also runs one year ophthalmic assistant training program that provides training to the local population.

4. **Hippocampus Learning Centre** runs education centers in rural Karnataka which offer kindergarten and afterschool primary education programs with a goal to create positive and tangible learning outcomes for children in rural India. 52% of the standard 5th students of Hippocampus Learning Centre (HLC) are able to read simple sentences and 35% are able to perform simle division while the numbers are 17% and 15% for other schools as per the Annual Status of Education Report (ASER). With the support extended by Lok Capital, Acumen Fund and UnitusCapital,members of IIC, HLC grew further and developed two programs, MathStar and Grow by Reading+ (GBR+). In both the programs, an individualized learning plan based on child's current competency levels and learning pace is developed and implemented.

5. **Janalakshmi** is an industry leader in the microfinance space in India. It has a portfolio exceeding INR 2500 Crores and over 1.7 million clients across 16 states. Janalakshmi's market-based approach to financial inclusion is defined by three distinct characteristics: an exclusive focus on servicing the needs of the urban poor; a strong customer-value driven approach in designing financial products and services and the centrality of technology and processes as the foundation of a scalable enterprise. Caspian, Michael and Susan Dell Foundation and Lok Capital have invested in the Company in multiple rounds over the years and also provided debt support at critical junctures in the early years. Caspian's first fund Bellwether exited Janalakshmi after a holding period of more than 7 years while its second fund IFIF remains invested in the company.

6. **LabourNet** started in 2006 as an initiative of Movement for Alternatives for Youth Awareness (MAYA), a non-governmental organization based in Bangalore. In 2011, it metamorphosed in to

LabourNet as a national livelihood enabling social enterprise. In the last eight years, it has trained more than 100,000 trainees, added 23 livelihood centers, 71 schools and provided more than 185 on-site training programmes across 25 states. Michael & Susan Dell Foundation and Acumen, IIC Executive Council members, have invested in LabourNet. AnsarAlam, a construction worker trained at LabourNet, says "I have become more confident and certainly improved my livelihood as well with which I am able to take care of my family in a better way".

7. **Micro Housing Finance Corporation Limited (MHFC)**: MHFC was founded with the sole objective of helping urban India's financially excluded, lower income families own an independent home. One of the issues stalling the development of low income housing is the lack of finance available to lower income households (especially those without documentation to prove incomes) to buy such homes. MHFC was set up to specifically address this gap. MHFC currently operates in six Indian states and has over 150 employees. It has developed a branch-less, technologyfocused operating model. Since starting operations in 2009, MHFC has sanctioned over 12,000 housing loans (amounting to approximately USD 76Mn) to financially excluded families buying homes in affordable housing projects. www.mhfcindia.com

8. **Rural Shores** was founded by Murali Vullangati who often dreamt of integrating rural India into the mainstream knowledge economy. He setup Rural Shores as a rural BPO in October 2008. Lok Capital, an IIC member, was an early investor in RuralShores (2009) and supported the growth of the company through follow-on investments and provided operational and strategic support. RuralShores now offers rural BPO and KPO services with 2500 employees in 17 centres, 10 states, across 45 processes and more than 30 blue chip clients. Mayuri N., am employee at Rural Shores, says, "It is just like a dream. Before joining here I had never seen a computer, now I am working on one and am able to provide financial support to my family."

9. **Satin Creditcare Network Limited (Satin)** promoted by Mr. H.P. Singh and Mr. Satvinder Singh and established in 1990 is an NBFC-MFI registered with the RBI and received their NBFC-MFI license on 6th November 2013. Satin operates in 11 states which include Uttar Pradesh, Madhya Pradesh, Bihar, Uttrakhand, Delhi, Punjab, Rajasthan, Haryana, Maharashtra and Jammu & Kashmir through 267 branches with a portfolio size of INR 21,400 million as of 31st March 2015. The majority shareholders after the promoters in Satin are Danish Microfinance Partners, Shore Capital and Micro Vest. Promoters hold 33% stake in Satin.

10. **Ujjivan** is a pioneering Microfinance Institution (MFI) with the mission of providing financial services to the economically active 'urban poor' to help alleviate poverty. Ujjivan has disbursed loans worth INR 68 billion and has total outstanding loan portfolio of INR 16.17 billion. Ujjivan's customer base comprises only of women and 22.4% of its total employees are also women. It operates 98 branches across 48 under-banked districts. 30% of the borrowers belong to Other Backward Classes (OBC) and 5% belong to Scheduled Tribe (ST) category. With the help of investments from International Finance Corporation, Caspian, Michael and Susan Dell Foundation, Lok Foundation and Unitus, all IIC members, Ujjivan has managed to expand its offerings and and outreach.

11. **Vistaar Finance** has the objective of making financing available at a reasonable cost in a transparent manner. It aims to continuously attract mainstream capital and human resources, to serve the chosen segments effectively. The company targets the missing middle segment, consisting of enterprises with an annual turnover of INR 120,000 – 1,000,000 which is not effectively served by the formal financial system. Vistaar is now present in 79 branches across 16 different clusters. As a result, Vistaar is now supporting over 27,500 micro and small enterprises across 4 states. Overall, Vistaar has disbursed loans to 51,700 customers till date. 65% of the

loans cater to the weaker sections of the society. Key investors of Vistaar include IIC members, Elevar, Lok Capital and Omidyar Networks.

REPRESENTATION FOR CHANNELISING CSR FUNDS THROUGH THE CATEGORY I ALTERNATE INVESTMENT FUNDS (AIF)

BACKGROUND

1. The Union Finance Minister in his union budget speech this year had emphasized the need for enhancing expenditure in priority areas of farm, rural sector, social sector, employment generation and focus on vulnerable sections of the society. The Government of India has put investment in these sectors as one of the core elements of its socio-economic progress. In recent past, the government has created major financial institutions with a focus on investments to provide financial support to improve the viability of government projects with special focus on energy, water, sanitation, communication, and social and commercial infrastructure. While majority of earlier investment projects focused on debt financing for such initiatives, the requirements are equally critical for equity financing. Further, the role of the government in being able to influence policies plays a major role in re-energizing the social sector investments.

B.CONSTRUCTIVELY ENGAGING INDUSTRY-LED PRIVATE INVESTMENT

2. With insufficient public sector and philanthropic resources available to address chronic social challenges, private sector capital is emerging as a powerful tool to create economic opportunities for underserved communities. Further, targeting CSR pool in a focused and more sustainable manner can help tackle our existing financing gap for SME enterprises and organizations focused on social innovations and outcomes. We need to harness CSR led innovation and entrepreneurial spirit and create a vibrant ecosystem to engage with them to spur impact investments in India.

C. LATENT DEMAND AND DESIRE

3. The idea is to allow CSR funds to be invested in SEBI-regulated alternative investment vehicles, which would be dedicated to sectoral allocation and would provide investments into social start-ups, social enterprises and MSMEs. The objective is to maximize socio-economic impact mainly through investment in projects through debt and equity that have the potential to achieve certain social outcomes, including government's social welfare programs and missions. It can catalyze impact investing in social startups, MSMEs and create employment and livelihood for thousands of people over the years. The objective is to provide impact investing which supports socially or economically beneficial organizations in disadvantaged communities that generally cannot attract efficient financing through traditional market mechanisms. The mission is to invigorate local communities and provide them with avenues to economic self-sufficiency, while producing positive social impact.

4. Thus, instead of spending directly or opting to pour funds into government programs, funds could be allowed to be invested in social impact funds or other instruments managed by a group of experts. Impact investing is a targeted intention to create positive social impact in conjunction with social dividends and muted financial-returns.

5. Impact investing is always done through externalizing the responsibility to another legal entity, an investment fund. The argument here is that funds can be sustainable and continuously reinvested. Funds can either be managed by individual companies or pooled together into one fund. The latter argument of pooled funds allows for economies of scale, including appropriate collation of expertise and research under one roof. CSR funds can be used for equity, grants, or loans in local communities via patient capital impact investing. Funds can also be used to create or invest in local community development financial institutions. The options are plenty and allow for growth of social enterprises and/or programs already working in the development sector without recreating the wheel.

6. The advantages of channeling CSR funds through Category I AIF pooled vehicles are:

(i) The fund manager acts as a fiduciary on behalf of its investors playing an important fiduciary and stewardship role;

(ii) The fund manager is mandated to apply professional investing and monitoring skills;

(iii) Investors in AIFs are typically high-calibre entities with business acumen such as HNIs, family offices, family foundations and pension funds;

(iv) The fund manager provides frequent reports on portfolio companies to its investment committee;

(v) The fund manager typically invests in and builds a portfolio of sustainable social projects, or social enterprises, consistent with the aims of CSR funds as enunciated in the Companies Act2013;

(vi) AIFs are registered and regulated by a Government regulatory authority i.e. SEBI under its AIF Regulations, 2012;

(vii) AIF pooling vehicles are well-accepted as a sound and valid instrument by investors in many countries as channels for investing impact funds in order to achieve social good;and

(viii) Finally, the pooling of funds in AIFs enables the leveraging of funds invested by any single investor.

S. No.	Suggested Changes	Rationale
	Restriction on Investment by Companies using CSR Funds	
1.	The Ministry of Corporate Affairs may consider issuing a circular/notification modifying section 135 and Schedule VII of the Companies Act to effectuate the following: Section 135. **Corporate Social Responsibility**: (1) Every company having net worth of rupees five hundred crore or more, or turnover of rupees one thousand crore or more or a net profit of rupees five crore or more during any financial year shall constitute a Corporate Social Responsibility Committee of the Board consisting of three or more directors, out of which at least one director shall be an independent director. (2) The Board's report under sub-section (*3*) of section 134 shall disclose the composition of the Corporate Social Responsibility Committee.	The Alternative Investment Funds (Regulation), 2012 ("**AIF Regulation**") can play an enabling role for the spread of CSR activities in India. The AIF Regulationmay have a far-reaching effect as it can harmonize a considerable pool of CSR fund created pursuant to the CSR provision and facilitate investment of such CSR funds towards social ventures at a sustainablecost. Allowing companies to invest their CSR funds in social ventures will also enable scalability and social impact.

(3) The Corporate Social Responsibility Committee shall,—

(a) formulate and recommend to the Board, a Corporate Social Responsibility Policy which shall indicate the activities to be undertaken by the company as specified in Schedule VII;

(b) recommend the amount of expenditure or investment to be incurred on the activities referred to in clause (*a*); and (*c*) monitor the Corporate Social Responsibility Policy of the company from time to time.

(4) The Board of every company referred to in sub-section (*1*) shall,—

(a) after taking into account the recommendations made by the Corporate Social Responsibility Committee, approve the Corporate Social Responsibility Policy for the company and disclose contents of such Policy in its report and also place it on the company's website, if any, in such manner as may be prescribed; and

(b) ensure that the activities as are included in Corporate Social Responsibility Policy of the company are undertaken by the company.

(*5*) The Board of every company referred to in sub-section (*1*), shall ensure that the company spends or invests, in every financial year, at least two per cent. of the average net profits of the company made during the three immediately preceding financial years, in pursuance of its Corporate Social ResponsibilityPolicy.

Provided that the company shall give preference to the local area and areas around it where it operates, for spending/investing the amount earmarked for Corporate Social Responsibility activities:

Provided further that if the company fails to spend such amount, the Board shall, in its report made under clause (*o*) of sub-section (*3*) of section 134, specify the reasons for not spending/investing the amount.

“Further, in exercise of the powers conferred under sub-section (1) of section 467 of the Companies Act,

	the Central Government hereby makes the following amendments to Schedule VII of the said Act, namely:- In Schedule VII, after items *(i)* to *(x)* and the entries relating thereto, the following items and entries shall be inserted, namely: - " (xi) social business projects" " (xii) social enterprise" "(xiii) social venture or social venture fund as defined under SEBI (Alternative Investment Funds) Regulation, 2012"	
2.	**Broadening the Scope of Eligible Investments by Public Trusts**	
	Amendment required in Section 11(5) of the Income-tax Act, 1961 ("**ITA**") Section 11(5): the forms and modes of investing or depositing the money referred Additional clauses allowing wider permissible modes of investment by public trusts under Section 11(5) of ITA. The ITA should amend section 11(5) to effectuate the following: "(iva) investment in any security of a social business or a social enterprise" "(ivaa) investment in the security of a *not-for-profit* company Explanation- In this clause, a *not-for-profit* company means a company set up under Section 8 of the Companies Act" "(ivaaa) investment in social venture fund *Explanation*- In this clause, a "social venture fund" means an Alternative Investment Fund [set up under the Securities and Exchange Board of India (Alternative Investment Funds) Regulations, 2012]] which invests primarily in securities or units of social	Under the 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 arenot as per ITA, then the trust

	ventures and which satisfies social performance norms laid down by the fund and whose investors may agree to receive restricted or muted returns.”	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 social sector, public trusts should be allowed to invest in recognized social enterprises and profits on such investments may be subject to tax.
3.	Include “Social Enterprises” as a separate category in the AIF **Regulation**	
	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	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,

	social welfare or solving social problems or providing social benefits and includes, (i) public charitable trusts registered with Charity Commissioner; (ii) societies registered for charitablepurposes; (iii) company registered under Section 8 ofthe CompaniesAc. "**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 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, last mile delivery of goods and services to under privileged beneficiaries, 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 a threshold prescribed annually by the investment committee of the SEBI-registered Category I social venture funds making the investment or be individuals with physical disabilities.	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.