TO: Shri Jayant Sinha, *Hon'ble Minister of State for Finance*

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

DATE: 28 June 2016

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

Dear Shri Sinha,

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 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 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:

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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 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. 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

i. AIF
ii. VCF
iii. DFI
iv. NBFC
v. Others like Foreign Foundations, International Funding Agencies, FDI, 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.

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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[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."

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 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.

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

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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,

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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")	Section 2(u) of the AIF Regulations defines a "social venture" as follows: 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, (i) public charitable trusts registered with Charity Commissioner; (ii) societies registered for charitable purposes or for promotion of science, literature, or fine arts; (iii) company registered under Section 8 of the Companies Act, 2013; (iv) micro finance institutions; Further, under Section 2(v) of the AIF Regulations, a "social venture	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 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 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) 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	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. 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.

	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;	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. Section 2(v) should be amended to define a "social venture fund" as follows: 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.	

ANNEXURE II: RBI's DEFINITION & RECOMMENDED CHANGES

Issue	Current Rules / Legislation	Proposed Rules / Legislation	Rationale
1. Define "Social Enterprises" for priority sector lending	The RBI has defined the priority sector as including agriculture, MSMEs, education, housing, export credit and others. 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.	The RBI circulars on priority sector lending to be amended to include unlisted "Social Enterprises", which shall be defined as follows: "Social Enterprise" means a trust, society or company or limited liability partnership and 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 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.	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. 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. 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. 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.

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SOCIAL IMPACT BONDS

A White Paper by Impact Investors Council

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I. INTRODUCTION TO SOCIAL IMPACT BONDS

SIBs are innovative financial instruments, which create transparency and efficiency in social investments. SIBs and Outcome Funds, that finance SIBs, have the potential to create a unified $1 trillion social impact investing market in India, by 2050, to banish poverty, forever.

A White Paper by Impact Investors Council

Three decades ago, a former Indian Prime Minister created a furor as he announced that only 17 paise of each development rupee, meant for the poor, reaches the targeted beneficiary. In 2009, the Deputy Chairman of Planning Commission in India corrected this to 16 paise. Everyone immediately connected this leaky bucket to corruption but infact, inefficiencies were and are likely a very significant, if not the biggest, part of such poor implementations. Each year, India's growing social investments, $60 billion currently, fail to address the social ills and inequities in the Indian society. There is a widespread apprehension from global development experience that there are no silver bullets. Even Pope Francis turned economist in late 2009, when he decried an "idolatry of money" and warned that it would lead to "a new tyranny". "Some people continue to defend trickle-down theories which assume that economic growth, encouraged by a free market, will inevitably succeed in bringing about greater justice and inclusiveness in the world," Francis wrote in the papal statement. "This opinion, which has never been confirmed by the facts, expresses a crude and naive trust in the goodness of those wielding economic power and in the sacra-lized workings of the prevailing economic system." Clearly, there is growing and impatient disdain- does capitalism ever deliver social justice? In this backdrop, we need to find ways and means of using every rupee efficiently. Social Impact Bonds or SIBs offer new hope that we may now eventually have tools to bring transparency and efficiency to development or social impact investing. Moreover, there is hope that we may be able to unify multiple disaggregated components of the social economy to create a healing whole.

This white paper outlines the opportunity presented by SIBs in five parts: I. What are Social Impact Bonds?, II. How do SIBs work?, III. Implications for India, IV. The Vision for Social Impact Investing in India, and, V. Next Steps.

II. WHAT ARE SOCIAL IMPACT BONDS?

Social Impact Bonds (SIBs) are a financial instrument, which attract a financial return, fixed for different levels of outcomes, on achieving audited and measurable social (or environmental) outcomes as pre-requisitioned by the SIB like chronic unemployment, juvenile delinquency, homelessness, youth recidivism, child abuse, maternal health, teenage pregnancies, etc. An SIB issuer is often also the provider of risk capital (or working capital) to the Social Service Providers or SSPs (i.e., For-Profit Social Enterprise[1] or Non-Profit NGOs/CSOs[2]) executing the project. The final payer of the SIB can be a Government or Philanthropist or an Outcomes Fund setup for the purpose. SIBs and variants thereof, are also known as Pay for Progress Bonds, Pay for Success Bonds, Social Benefit Bonds, Social

[1] This white paper uses the terms social business or social enterprise interchangeably

[2] This white paper uses the terms Non-Government Organizations (NGOs), Civil Sector Organizations (CSOs) and Voluntary Sector Organizations (VSOs) interchangeably

Innovation Financing, Development Impact Bonds or Social Policy Bonds. SIBs started in UK and are now widely in use across USA, Canada, Belgium, Netherlands, Germany and Australia. At end of 2014, according to Social Finance UK, there were already 25 SIBs commissioned across 7 countries, with Youth Engagement, Children & Young People, Criminal Justice and Homelessness as the key funded causes. The number has gone up to 40 in 2015.

A. Definitions

There are multiple definitions from practitioners, consultants, intermediaries, etc. for SIBs. Here is a selection of definitions:

1. *Center for American Progress*[3]: SIBs are "an arrangement between one or more government agencies and an external organization where the government specifies an outcome (or outcomes) and promises to pay the external organization a pre-agreed sum (or sums) if it is able to accomplish the outcome(s)"
2. *Social Finance US*[4]: "A Social Impact Bond (SIB) is a specific type of social impact financing in which funds are raised from Investors to provide Social Service Provider(s) with the working capital to deliver their services. For example, a government may enter into a Pay for Success contract with an Intermediary and its Social Service Provider partners in which the government only pays if youth employment increases. The Intermediary would raise the working capital that the Social Service Providers need to operate the program from Investors. If the services are successful in improving youth employment rate, then the Government would repay Investors for the successful outcomes. If youth employment does not improve, then the Government does not pay and Investors risk losing their capital."
3. *Social Finance UK*[5]: "Social Impact Bonds are based on a commitment from government to use a proportion of the savings that result from improved social outcomes to reward non-government investors that fund the early intervention activities."
4. *The Young Foundation*[6]*:* SIBs are "a range of financial assets that entail raising money from third parties and making repayments according to the social impacts achieved"

B. Goals & Objectives:

Current approaches to government funding of social services are very inefficient and inadequate and leads to lack of faith amongst the investors. Hence the key goals which need to be addressed through SIBs at the minimum are:

1. Find the most efficient way to serve the poor, under-served and at-risk individuals and households with focus on outcomes, not inputs or activities

[3] The **Center for American Progress** is an independent nonpartisan policy institute offering policy proposals, talking points, events, news and columns

[4] **Social Finance US** is a nonprofit organization that develops and manages Pay for Success projects in US

[5] **Social Finance UK** is a not for profit organization that partners with the government, the social sector and the financial community to find better ways of tackling social problems in the UK and beyond.

[6] **The Young Foundation** is a non-profit, non-governmental think tank based in London that specializes in social innovation to tackle structural inequality.

2. Invite private capital (for-profit and philanthropic) to contribute in managing public programs
3. Reduce Government spending in the long run which benefits taxpayers too

C. Benefits

The introduction of SIBs is expected to not only assign a social cost to social issues but thereafter quantifying the benefits accruing to the society when some of these issues are addressed. This has not been conceptualized in India so far. Some of the key benefits for different players under the structure are given below:

1. Impactful non-profits find it a big drain on their times and resources to constantly reapply for grants. A successful SIB means that they should have easier recourse to continued funding due to this audited evidence.
2. The Investors and Social Service Providers (SSP) have an incentive to be more effective. So there is an increased focus on the implementation of the plan thereby improving the quality of outcome.
3. Government spending is prioritized or positioned towards plans & services which are successful as compared to the plans which are not. This ensures more judicious use of the public funds.
4. SIBs bring new sources of funding for services that would not otherwise be provided due to the tightening of government budgets. Also, services that are already funded can be scaled up, so that the positive impacts can reach more people.
5. Outcomes in the social sector are also defined in a measurable form and metrics are building around the same e.g. no. of girl child school dropouts after class 8/10 in a certain district. This brings more transparency to social financing.

III. HOW DO SIBs WORK?

The design of an impact bond can vary greatly in terms of the composition of the players involved, their roles, and the timeline and process of putting the deal together. A basic SIB construct has been shown in Figure 1 below. In this model, there are three main parties an Outcome Fund, SIB Issuer and a Social Venture. Their relationship with each other as well as their responsibilities under the arrangement is explained in the coming section.

A. The SIB Construct:

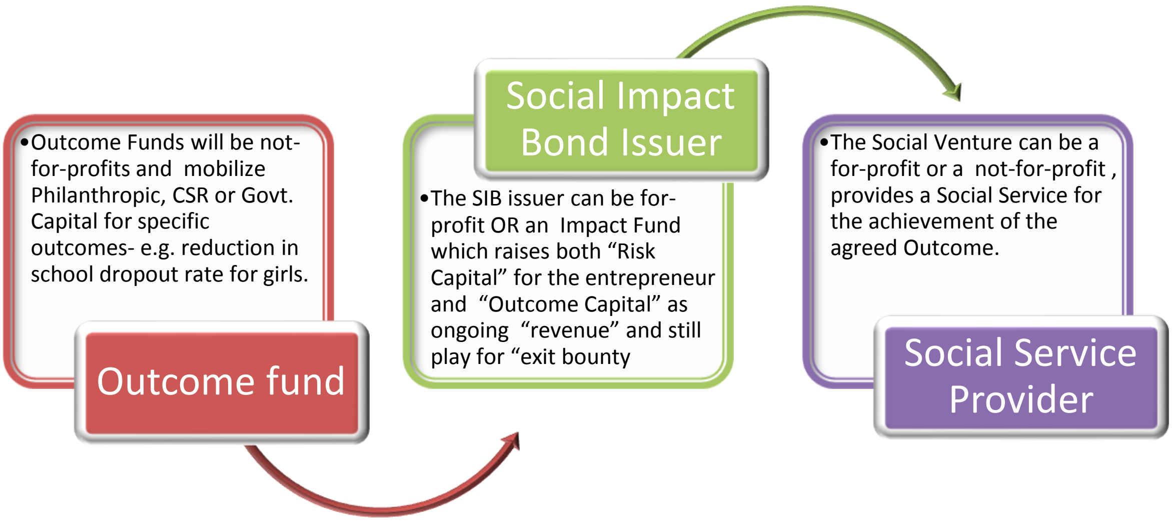

Figure 1 Structure and Players of Social Impact Bonds

B. Three key kinds of players:

The SIB ideally requires three kinds of players- Outcome Funds, SIB Issuers and Social Service Providers (SSP). Each player's role is described below:

1. **Guarantor or Final Payers (Outcome Funds)** - This is mostly the Government outside India with occasional participation from Philanthropists. However, in India, to begin with, we are hoping that Philanthropies, Family Offices and CSR Capital will all play the key role of Guarantors or Final Payers, requisitioning outcomes. They can and should ideally pool funds into non-profit Outcome Funds.

2. **Intermediary or SIB Issuer**- SIB intermediaries play an essential role in overseeing and managing the SIB project and compete for SIBs with the Guarantors. They are much like Venture Capitalists as they provide interim risk capital as negotiated with the Execution Agency and provide managerial inputs to seek the best outcomes (and therefore highest returns). When the outcomes are achieved, the SIB issuer gets the return over investment on a pre agreed basis from the Outcome Fund. In the event of agreed outcomes not getting achieved, SIB issuer bears the risk of not getting paid.

   Social Finance, a non-profit who structured the first SIB in UK, has become the pre-eminent SIB intermediary worldwide. Other include: Third Sector Capital Partners, Harvard Social Impact Bond Technical Assistance Lab, Private Capital for Public Good and Finance for Good. They are market-makers in the SIB market creating supply and demand for SIBs.

3. **Social Service Provider**- The service provider at the grass-root level can be a for-profit entity or a not-for-profit NGO, Trust or Society with grassroots experience in working on the social problem at hand. The SSPs work for the outcome to be achieved under the contract. Execution of outcomes against pre agreed standards is measured by an independent evaluator.

Risk undertaken by the SIB issuer is similar to that of an equity investor but then why has it been named a 'bond'. The next section evaluates the characteristics of SIB vis a vis Debt and equity.

C. SIB: Debt or Equity or a mix of both

A bond is a debt instrument wherein an investor loans money to an issuer for a defined time at an agreed-upon interest rate. A Social Impact Bond typically has a defined time period, but has varying return rates, fixed for levels or ranges of outcomes. Thus a SIB is more accurately described as a hybrid financial instrument with characteristics of both debt and equity. For example, there is an upper limit on the returns from the investment (debt/bond), but also a potential return based on performance (equity). Table 1 looks at different features of the Equity, Debt and SIBs by comparing them.

	Equity	Debt	Social Impact Bond
Definition	An **equity instrument** refers to a document which serves as a legally applicable evidence of the ownership right in a firm, like a share certificate. **Equity instruments** are, generally, issued to company shareholders and are used to fund the business	**Debt instrument** is a paper or electronic obligation that enables the issuing party to raise funds by promising to repay a lender in accordance with terms of a contract. Types of debt instruments include notes, bonds, certificates, mortgages, leases or other agreements between a lender and a borrower	**Social Impact Bonds (SIBs)** are a financial instrument, which attract a financial return, fixed for different levels of outcomes, on achieving audited and measurable social (or environmental) outcomes as pre-requisitioned by the SIB like chronic unemployment, juvenile delinquency, homelessness, youth recidivism, child abuse, maternal health, teenage pregnancies, etc
Rate of Return	No fixed rate of return over the investment but has a claim over the future profits of the venture.	A lender is entitled to a fixed rate of return over the tenor of the contract.	Rate of return fixed for different levels of outcomes.
Time Period	The tenor in which the equity will be exited is not fixed at the beginning of the contract	Usually debt is contracted for a fixed period of time.	Usually the tenor under an SIB is fixed
Certainty of Return	There is no certainty of the returns for the equity investor. If the business fails, there is no return.	There is a certainty of getting pre agreed return under a debt instrument.	There is no certainty of return under an SIB. If the agreed outcomes are not achieved, there is no return.

Table 1. Features of Equity, Debt and SIB.

D. Examples of Global SIBs:

There are close to 40 SIBs running currently across eight different countries now. Some of the examples have been given below to showcase how SIBs have been used to tackle social objectives.

1. In September 2010, UK launched the first-ever SIB with GBP 5 million for interventions to reduce re-offenders who have served short prison sentences (less than 12 months) at HMP Peterborough, a prison in eastern England. Years later the results are available and favorable. Before the pilot, for every 100 prisoners released

from Peterborough there were 159 reconviction events annually. Under the SIB, this has fallen to 141, a significant fall of 11% while nationally the number rose by 10%!

2. In USA, the first SIB was the Adolescent Behavioral Learning Experience (ABLE) Program by Goldman Sachs in partnership with the City of New York and Bloomberg Philanthropies, investing $ 10 million to reduce recidivism at Riker's Island in New York City. Goldman Sachs receives its capital back only if the re-admission rate, as measured by total jail days avoided, is reduced by 10% or more, and should the reduction go beyond 11%, Goldman Sachs receives a financial return (from 5% to 22%) that's magnitude is correlated with the reduction in the re-incarceration rate and associated savings to the government.
3. In USA, Bank of America Merrill Lynch launched an SIB open to its private wealth clients thereby channelizing $ 13.5 million to finance a reform initiative for previously incarcerated New York state criminals (2000 in number). If successful, the state will save millions in incarceration and criminal justice system costs. The return of the investors is linked to the reduction in recidivism (at least 8% or more) and gain in employment percentage (at least 5 percent points). In the best case investors earn returns of up to 12.5% annually over the project's five-and-a-half year term.
4. In October 2013, UK launched another SIB with the social outcome of adoption of hard to place children. The total bond amount was GBP 2 million. The target was 650 children to be placed over 10 years. Payments were linked to the Service Providers on achievement of certain benchmarks i.e. GBP 8,000 on registration; GBP 23,000 on placement; GBP 6,800 after 1 yr; GBP 15,800 after 2 yrs. 4% yield to the investors on the amount drawn down from them if the desired results were achieved.
5. In 2013, Australia also launched its first SIB, a $ 7million bond which promises investors a return if the number of children in foster care is reduced. Under the bond, private investors provide working capital to the program and share in the savings when the New South Wales (NSW) government reduces its foster care costs. The bond has a term of seven years and coupons will change depending on the cumulative restoration rate during its tenure. During the first year of performance, the restoration rate of 60% has yielded a return of 7.5% for the investors.
6. In 2014, Canada also launched its first SIB between the Government of Saskatchewan, Conexus Credit Union, Wally and Colleen Mah, and EGADZ (Intermediary). Under the Social Impact Bond agreement, EGADZ will receive $ 1 million from private investors – Conexus Credit Union, and Wally and Colleen Mah, to deliver the program and achieve the desired social outcome, which is to keep children out of foster care. Based on the degree to which the social outcome is met, the Government of Saskatchewan reimburses or does not reimburse the investor.

Since its launch in 2010, the concept has been adopted globally with over 40 SIBs currently running in eight different countries. More than $ 200 million of investments have been already been committed to the SIBs commissioned to date. While US and UK claim the maximum number of SIBs running, Australia, Belgium, Canada, Germany, Israel and Netherlands have launched their own SIBs. Japan and Scotland have also done feasibility studies to evaluate their SIB readiness. Countries like US and UK have passed SIB favoring legislations also which will be discussed in the coming section.

E. Laws in other countries

Governments across the world are creating a favorable market ecosystem to support SIBs in the form of regulatory support and committing funds for the SIBs as given below:

1. In USA, Rep. Todd Young (Republic) has introduced a bipartisan bill with Rep. John Delaney (Democrat), **Social Impact Bond Act** (H.R.4885) on 18 June 2014, now under scrutiny by House Financial Services and will be used for the Social Security Act with one-time appropriation of US$300 million over 10 years.
2. In the 2015 spending review, the UK government has allocated GBP 80m to a Life Chances Fund, which will top up outcomes for locally commissioned SIBs in complex areas. The Social Investment tax reliefs are also expected to channelize private investments in the social sector through SIBs.

IV. IMPLICATIONS FOR INDIA

The persistence and enormity of social problems, despite attempts to address them, suggest a need for diverse and innovative solutions that address the weaknesses of traditional approaches. Against this background, there is a huge potential for SIBs in India. Section A below looks at the potential areas where SIBs can easily be applicable and the section B looks at the potential market of the SIBs in the Indian context.

A. Examples of Potential SIBs in India

In India, an SIB structure has been used for the first time by Educate Girls (a Rajasthan based NGO) by launching a Pay by Results (PbR) program, receiving support from instiglio, A US Based non-profit social enterprise. The key social outcomes have been defined as a) increased enrollment of girls in the school; b)increased attendance in school and continued attendance over several years; c) improvement in learning and test scores. The program is expected to attract global donors who seek to address these issues by paying the organization for the result it achieves. Unlike other SIBs, the investors won't get their money back once the desired results are achieved in this arrangement, but the organization will get repeat funds for carrying out similar programs.

In India there are numerous social causes which the government is trying to address through various schemes. Some of the potential areas where SIBs can be used are measuring impact of using a cleaner fuel over health in rural areas, providing sanitation facilities to the rural population, increasing power reach to cover more and more areas, reducing malnutrition among children, affordable education to the poor, increasing capacity building of the municipalities by providing assistance on infrastructure projects, slum rehabilitation programs and many more.

B. Potential Size of the Market:

The size of social funding in today's date is expected to be around \$ 50 billion. Assuming growth rates of 5% (Govt. Spending), 9% (impact Investing), 5% (CSR initiatives), 7.5 % (domestic philanthropy) and 5% (International philanthropy) on a year on year basis, the potential size of the social financing market (cumulative basis) is expected to touch \$ 3 trillion by 2050. Even if we assume a slow pickup of SIBs in the initial 5 years (say 1-5%), with a potential to grow upto 20% of the social funding market, the estimated size (cumulative) of the SIB market is expected to be around USD 500 Billion by 2050.

- **Demand Side:** On the demand side there are numerous social causes which the government and the social enterprises trying to address. 70 % of the population in India is residing in rural areas with low access to electricity, education, sanitation facilities. With huge developmental budgeted spends year on year, Impact investments and philanthropic investments in the sector, there is a strong need for getting more value out of every rupee spent on development. This can be best addressed through SIBs.

- **Supply Side:** The main constituents of social funding supply are Government spending, Impact investments, Domestic and International Philanthropies and CSR initiatives by the Corporate India.

- **Government planned expenditure in the social sectors**: As per the union budget 2015-16, the planned expenditure of the Government of India (GOI) has been estimated at INR 467000 Crores for 2015-16 out of which even if we assume 20% in the social sectors, it comes to $ 14 billion on a Year on Year basis.

- **Impact Investments in the social Sector: I**ndia has witnessed impact investments of $ 508 million in 2015 (Cumulative investments of ~USD 2.5B till 2015) and these investments have been growing at a CAGR of 24%.

- **CSR Initiatives of India Inc**: As per CII estimates, with a mandatory 2% CSR spend, India Inc invested around 5240 crores in 2014-15 and has the potential to grow up to INR 25000 crores.

- **Domestic philanthropy**: A MacArthur-Intellecap report estimates the domestic philanthropy funding potential at $ 8 billion currently and further has the potential of going up to $ 22.4 billion per annum.

- **International philanthropy**: A report on India philanthropy by Bain consulting estimated foreign philanthropic funding at $ 1.9 billion in 2012.

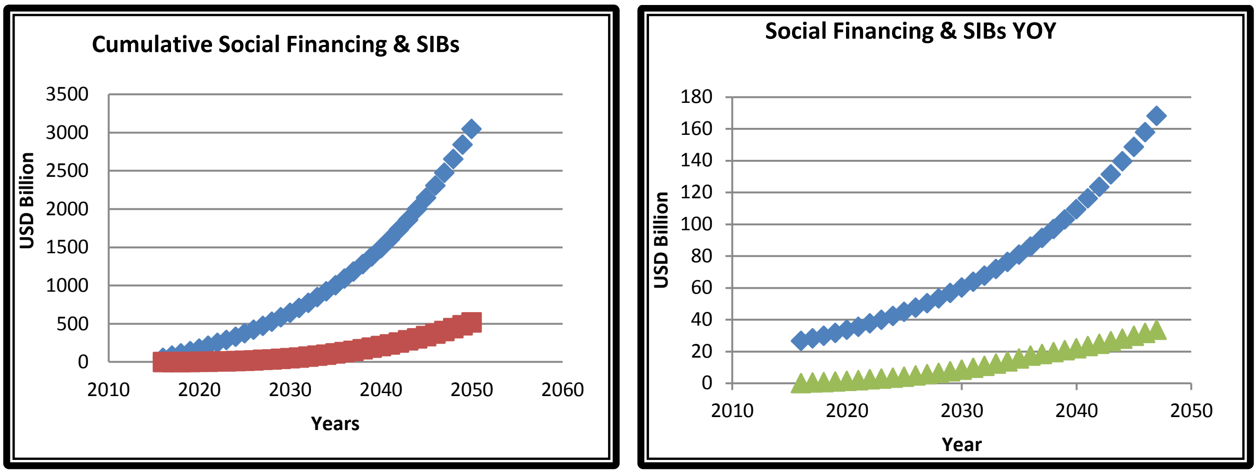

Figure 2: Adoption curve for SIBs vis-a vis Total Social Funding

C. Future Areas of Innovation

SIBs can be a very good way to ensure social funding is made accountable in India. It will bring a change in the way we think about social funding and social causes. Some of the other innovations which SIB can bring in the future are:

1. **Tradable SIBs**- SIBs can be made tradable where the issuer (who has put in risk capital) can transfer the relationship, at a very modest premium, to a new issuer. While everything can be replicated, a tradable SIB ensure passing-on of the history (can be a criteria for several Outcome Funds) and/or exclusive relationships with Non-Profits, Social Enterprises or Beneficiary Geography/Group.

2. **Compulsory SIBs for all Government Social Spend through NGOs (a.k.a. Auctions)**- In times to come, SIBs can bring transparency and efficiency to Government spend just like Auctions brought transparency and efficiency to national resources (spectrum, coal, etc.). At some time, CAG must consider making SIBs compulsory (post Pilot success) for all Government spend through NGOs.

3. **Emergence of strong Intermediaries**: In UK and US, Intermediaries like Social Finance Limited (UK) and Social Finance US respectively have played a pivotal role in the development and management of SIBs. These intermediaries are now networked in the form of **Social Finance Global Network** to support local intermediaries in different countries to develop SIBs of their own. India will also see emergence of Intermediaries on the lines of these organizations.

D. Legal Ramifications in India

In India, the launch of SIBs will require changes in the regulatory framework to safeguard interests of all the parties. As per the structure suggested in the paper in section IIIA, there are 3 parties to a SIB contract and these are Outcome Funds, SIB Issuer and Social Service Provider. The SIB issuer is an intermediary which will get into a contract with the Outcome fund and will agree on the outcomes to be achieved. On the other hand it will get into a contract with the SSP for achievement of social outcomes. SIB issuer will provide working as well as risk capital to the SSP. On achievement of the said outcomes, the outcome fund will pay the SIB issuer as per pre agreed terms. Under the arrangement some of the common challenges are :

- Main challenge is the structuring of the legal relationship among the participating entities (Government, Philanthropies, Social Service Providers, SIB Issuers, and Impact Investors etc). The SIB will need to be designed in a way so that the bulk of the risk is not shouldered on the investors (investing in the SIB Issuer) alone.
- In other countries, the Government has been the final guarantor. But in the Indian context Philanthropies, Family Offices and CSR Capital will play an important and critical role for contribution to the Outcome Fund. The outcome fund should ideally be a legal entity though even a financial instrument like guarantees may also work.
- **Structure of the SIB issuer**: The most critical role in the SIB contract is played by SIB issuer. This entity will need to assume a hybrid structure; non-profit may not be in position to receive equity from all parties (like CSR Initiatives of Corporate and Philanthropies, Impact funds) to create a pool of money to be used as working/ risk capital for SIB projects. Non-profit as a pooling vehicle may not be very tax efficient due to tax restriction on permissible mode of investment under the Income-tax Act and a for profit entity might not be able to receive contributions from trusts.
- Defining social outcomes under the contract and the measurement thereof could be another area of complication. The government will also need to clearly define the beneficiary population receiving social services and must provide safeguards to make sure the Social Service providers doesn't just "cream skim" or work with only the easiest cases to achieve the outcome. And, of course, the government must continue to cooperate with the Service Providers / Intermediaries throughout the full term of the agreement.
- The SIBs will necessitate the appointment of a professional Social Impact Auditor for Outcome Measurement. The Judgment should be binding for all the parties including Government.
- As governments have limited financing capabilities and often face budgetary restrictions, routing non-profit capital into all kinds of service providers, a hybrid model should be developed which can provide them with a new financing mechanism in which private investors manage risks, and institutions don't have to mobilize capital right away so they can plan their budget years in advance to be able to repay investors. This encourages innovation by reducing the risk for institutions, and by allowing more flexibility in the interventions.

V. THE VISION FOR SOCIAL IMPACT INVESTING IN INDIA

The potential market for SIBs in India with a 25% adoption rate is expected to touch USD 1 trillion by 2050. SIBs will not only bring more transparency to the social financing, it will make the investments outcome focused. With outcomes getting defined in measurable terms (e.g. percentage of population having access to sanitation facilities in a particular area, reduction is school dropout rate for girls, etc.) there will subsequently be value attached to social outcomes achieved (e.g. value accretion for the society with the increase in girl literacy rate). SIB will attach more credibility to the sector and the sector is expected to attract more private investments and the best of the talent in the industry. More and more Social Ventures will get promoted (both for profit/ not for profit) for the achievement for social objectives, thus SIB s will unify the entire social sector. It will change the way India thinks about social funding.

VI. NEXT STEPS

The success of Social Impact Bonds in India will require development in three key areas

1. **Projects which are SIB ready**: Service Providers will need to incorporate rigorous data collection techniques and assessment of outcomes into their work.
2. **A sound market ecosystem**: A sound market ecosystem will require co-ordinate work among all market stakeholders to start with and a robust regulatory framework to secure the interest of all the parties to a SIB.
3. **Blended value investor pool:** Philanthropies, Family Offices and CSR Capital would contribute to the pool investors. With right regulations in place even small retail investments can be channelized in the social finance.

VII. WHAT WE NEED FROM THE GOVERNMENT:

All Over the world, Governments are actively creating legislations and favorable ecosystem for the SIBs to run and succeed. Despite the fact, that the social outcomes in these countries are not so easily quantifiable. Whereas in India, there are many social issues which can be easily quantifiable like percentage population having access to sanitation, clean water, education etc. So there is a strong demand side already existing and there is a supply side also which can be further strengthened to channelize the funds towards social funding. Some of the steps which can be taken by the Governments can be as below:

1. SEBI to define and register Outcome Funds as "non-profits entities (trusts and section 8 companies) who raise/pool money for social impact, have a minimum corpus of INR 10 crores and contract either with Impact Investors or directly with SSPs for delivering social impact through instruments like social impact bonds (SIBs)"
2. CBDT to clarify that Trusts & Charities can invest in non-profit Outcome Funds who can in-turn contract directly with SSPs or with Impact Investors
3. MCA to allow CSR money to be invested in non-profit Outcome Funds which requires a change in Schedule 7 of The Companies Act, 2013
4. SEBI to clarify that Impact Investors (registered as AIF1/2, or NBFCs, or FIIs/FPIs) can issue SIBs and contract with SSPs
5. MoF to allow IIC to be a Self Regulatory Organisation (SRO) ensuring end-customer protection and enlisting guidelines & audit firms for social impact SIB Issuer

If we take these starting steps, we will move closer to making India ready for a momentous innovation in the field of social financing. On one side it will open up more sources of finance for social causes and on the other side it will make social impact quantifiable.

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