



19 May 2020

Shri K Rajaraman
Additional Secretary, Investment & IER,
Department of Economic Affairs
Ministry of Finance
Government of India
New Delhi

Dear Sir,


Sub: Requesting for specific support allocation for the social impact enterprise sector within the Aatmanirbhar package **and beyond**

Impact Investors Council (“IIC”) is the national not for profit industry association of impact investors in the country representing 600 impact enterprises funded by 35 large social impact funds. These social impact enterprises and their investors work with and impact more than 200 Million underprivileged low-income Indians through for-profit businesses in the area of education, health, agriculture and financial inclusion.

At the outset, we would like to congratulate the government on behalf of the Impact investment industry for drafting well-balanced and detailed measures under the ‘Atmanirbar Bharat’ Plan. The purpose of this letter is to provide some suggestions and feedback on how the package will play out on social impact enterprises, with a specific request to consider two suggestions for support to the sector, given their seminal role in supporting the underprivileged in our country.

Impact Investing, as you would be well aware represents investing in for profit enterprises with an intention to generate tangible social impact along with financial returns: most impact investors focus on enterprises which provide products and services for low income customers. Some quick details

1. Indian impact sector has been successful in generating a wide variety of innovations across sectors. A large base of low-income customers, a vibrant entrepreneurial ecosystem and a strong technology culture have helped build impact enterprises that deploy affordable yet innovative solutions at scale. It is no surprise that India is called the impact lab of the world, with many home-grown innovative solutions becoming relevant not just for India, but globally too.
2. In the last decade (2010-2019), 600 impact enterprises have mobilized cumulative investments to the tune of USD 10.5 Bn into the impact enterprises thereby impacting the lives of more than 200 million under-served beneficiaries.
3. Development Financial Institutions (DFIs), impact venture Funds, angel investors and foundations currently fuel the impact investment sector in India. While offshore DFIs and impact venture funds have been key players since the beginning, several of the impact-oriented venture funds have also received investment from the SIDBI Funds of Funds



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Impact of Covid 19 on the impact enterprises

Our survey of impact investors reflects

1. An overall cash flow shortfall to the extent of 20-25% of income across enterprises.
2. A severe shortage of overseas investment as an aftermath of Covid 19
3. Shortage of domestic sources of capital for sustenance funding: most impact enterprises are unable to access domestic debt given the nascency of their business models
4. An expectation that between 30-35% of the 200 million customers being serviced by the impact enterprises could potentially slip back into poverty given the size and scale of the disruption.

Atmanirbhar Bharat Package and Impact Investing Industry: our request and suggestions

Suggestion 1: Allocation from the Fund of Funds for specific investment for the social impact sectors

The Hon'ble Finance Minister announced that the Fund of Funds (FoF) shall be operated through a Mother and a few Daughter funds. It is expected that with leverage of 1:4 at the level of daughter funds, the Fund of Funds will be able to mobilise equity of about Rs 50,000 crores.

We would request you to consider earmarking a special daughter fund for the sector. We will be pleased to support the government in drafting sound screening guidelines and a robust due diligence mechanism to ensure that the most deserving, innovative, impactful and financially sound impact enterprises receive the equity funds from the FoF.

Suggestion 2: Long term returnable grant to Social impact start-ups

Given the vulnerable financial position of many impact enterprises, and the critical nature of the developmental in servicing low income customer, a returnable grant, grant/soft loan fund with a long-term repayment could be structured, exclusively to fund employee and creditor payments. This will help in sustaining the impact start-ups during the somewhat extended covid period that appears most probable presently.

Rationale

The Atma Nirbhar Bharat package announced by the government resonates very well with will support a large base of well-established SMEs access both debt, equity and mezzanine capital. However, many of the impact funded social enterprises are in the start-up phase and are ineligible to benefit from most of the schemes other than the 'Fund of Funds' schemes. As the survey mentioned above shows, the international investment climate is expected to remain muted, and on the domestic side, most of these enterprises would not have raised debt from banking channels, and will not come into consideration for several of these schemes. Growth capital as well as debt finance will become a challenge. As a consequence, a specific earmarking of funds or a scheme for social impact enterprises will provide much needed succour to the sector.



While the fund of funds will provide much needed growth capital, sustenance funding can be provided through a long-term returnable grant or soft loans. Besides building unique business models for low income customers (in itself an uncertain task), the business also needs funding to sustain operations during the extended lock down period, which the soft loan can provide.

We believe that the proposals laid out above will help us the sector continue to support and sustain the enterprises that support 20 Cr. low income customers in the country. We look forward to hearing from you and will be happy to provide more details.

Yours Sincerely,

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