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Impact Investing and Social Entrepreneurship: the case of India

Chiodo Veronica
Politecnico di Milano

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Dipartimento di Economia, Università degli Studi di Perugia

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Abstract

It is increasingly clear that one of the most difficult tasks for social enterprises is raising money at the different stages of their life-cycle. In order to scale successfully, social entrepreneurs require investment capital from a “special” type of investors who are willing to recognize the organization’s social, ethical or environmental mission as the prominent value. A breath of fresh air to these struggles might be found in the desire of an increasing number of investors to deploy their money to achieve a positive social impact beyond financial return; those who are labeled as *impact investors*. Impact investors might be “the other side of the Velcro to social enterprises” and vice versa. Consequently, this work intends to investigate the relationship between the phenomena of Impact Investing and Social Entrepreneurship using the Indian SEs market as a case study and impact investors operating in this market as “best practices”. The entire research has been backed by the question about the impact investing’s real ability in supporting the development of social enterprises. The analysis of the peculiar characteristics of the Indian landscape has helped in investigating to solve this interrogative. The paper presents a set of trends inferred by exploring the Indian impact investing market: access to information(I); a gap in the funding curve: seed and mature stage(II); shortage of attractive and scalable investment opportunities(III); unlocking domestic capital(IV); lack of debt funding(V); more risk-appetite and patience from investors(VI). We suggest that they might be paradigmatic of the global industry and might help to point out many further initiatives crucial to grow a fertile relationship between social enterprises and impact investors. Finally, what seems, beyond capital, the biggest positive aspect of impact investing movement is the provision of expertise and the transfer of knowledge to social entrepreneurs, in terms of finance, management and governance, coming either from investors or from incubators and accelerators.

Keywords: impact investing, social enterprise, emerging market, India, development.

FOREWORD

Analysing the case of India from an economic point of view offers interesting insights. Indeed, India is a pacemaker among emerging markets, with a high entrepreneurial bent, a tradition of strong NGOs and a huge opportunity market. Nevertheless, India's rapidly growing economy has not managed to alleviate extreme poverty, which embraces about half of the country's population. Given this scenario, social enterprises, by employing innovative business models, are giving a great contribute to address India's vast development needs in a sustainable manner using viable revenue models. Thus, today, India has one of the strongest and innovative social entrepreneurship industries than anywhere else in the world. Even if India's social entrepreneurship space is young in terms of years of operation and nascent in terms of revenue and size per enterprise, the business models are very evolved and innovative here. Enterprises across sectors have devised interesting ways to make products affordable, modular and bite-sized; and many markets-building infrastructures and networks are growing to help SEs addressing the challenges of scale.

On the other hand, though, one of the most difficult tasks for SEs, in India as well as all over the world, is raising money at the different stages of their life cycle; and one relatively new and amazingly increasing solution is exactly the investors' desire to deploy their money to achieve a positive social impact beyond financial return. This intention gave birth to the practice of Impact Investing, define as *investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return* (GIIN). The explicit intentionality to have a positive impact on society is the main distinctive feature of this activity. India is one of the world's most advanced impact investing markets, as well. This study intends properly to investigate the concept and industry of Impact Investing using the Indian SEs market as a case study and the Impact Investors operating in this market as "best practices".

Moreover, social entrepreneurs and impact investors share the common goal of pro-actively creating positive impact alongside the generation of profit. Thus, these two practices appear to be structured so as to reciprocally support their growths thus pioneering together a new style of sustainable development in solving the huge social and environmental issues of the globe. In fact, the relationship, between Impact Investing and Social Entrepreneurship, seems to be even more interesting referred to developing countries because this interaction might represent a new lever to overcome the traditional approach to development. In fact, we have seen how the NGOs and the philanthropy efforts are no more enough for the vast issues plaguing the global population. To broaden the achievable impact, a new way of thinking about development is necessary. Over the last decades, the sharp dichotomy between profit-maximizing financial investment and "give-it-away" charity has gradually loose its edge. The time is mature for a new approach in trying to solve the world's problems where *"financial return potential increases the attractiveness of opportunities that produce a positive impact, drawing more private sector capital to areas that promote development; private sector participation, and the opportunity to generate returns, spurs innovation and growth; commercial capital pushes enterprises to experiment with new business models, capture new opportunities and drive for greater impact"*[1].

The Social entrepreneurship movement might be able to push the development approach towards a more a mind-set more focused on "long-term sustainability". However, they need a tailored partner in doing that.

[1] United Nations Global Compact Team, The Rockefeller Foundation Team (2012), A Framework for Action: Social Enterprise & Impact Investing.

Specifically, they need a commercial-kind source of funding able to foster their accountability and efficiency; meanwhile, though, they have many particular features that make them not immediately attractive to traditional commercial funders. As well as philanthropy has been the fuel for NPOs, now Impact Investment should be the engine of social entrepreneurship.

Hence, we try to understand if, given the main challenges faced by Indian social enterprises, the impact investors acting in this market have the characteristics, the attitude and the willingness to contribute, at least in part, in solving the shortcomings of the current Indian social entrepreneurship. The work stems from a review of the related existing literature and from a two-month field work experience in India resulting in a considerable amount of opinions, perspectives, data collecting thanks to approx. thirty interviews with social entrepreneurs, impact investors, intermediaries such as incubators, experts, meeting participants.

THEORETICAL FRAMEWORK: IMPACT INVESTING SUPPORTING SOCIAL ENTREPRENEURSHIP

Social enterprise investment phenomenon is a unique sub-type of the emerging impact investment practice.

To realize their potential social enterprises, like any other business, require the financial resources to set up and grow. Nevertheless, given the current status quo, it is unlikely that social entrepreneurs would be able to attract traditional investment capital: *social enterprises are still mostly small, thus require smaller investments that drive up transaction cost; they typically take longer to scale and operate in a range of sectors with untested business models that require substantial support beyond capital.* In order to scale successfully, they require a "special" kind of investors who are willing to recognize the organization's social, ethical or environmental mission as the prominent value. *Social entrepreneurs are looking for patient investors who are willing to work hand in hand to provide value to the business over time; investors that are able to get the most out of hybrid capital structures; investors feel comfortable with the early-stage investing that social enterprise requires and ready to nurture the growth of social enterprises even before they are investable (Bugg-Levine, Emerson, 2011).* In a nutshell, *investors who are not risk-adverse and more realistic about the returns they can generate and more effective in measuring them*. On the other hand, social enterprises themselves might be, as the Root Capital founder says, *"the other side of the Velcro to impact investors who are seeking enterprises to back that can covert capital into blended value"* (Bugg-Levine, Emersong 2011).

However, in order to realize this complementary relationship, impact investing should have been really shaped to fulfill the specific social enterprises' needs. We will investigate in this paragraph how the peculiarities of impact investing practice, at least in theory, might support the effective development of a social enterprise.

Social enterprises receive funding in three major forms: grants, debt and equity.

First of all, it is of critical importance to select the right mix of financing tools relative to the company's stage in its life cycle. Hence, the first question to ask is: *what type of capital in which stage of a company's growth is optimum to help a social enterprise's growth?* Monitor Group's research has identified four stages in a social enterprise's development process, each of them with a specific financial and technical requirements (Karamchandani et al., 2012):

Blueprint: it is a step beyond the mere idea; there has to be a compelling initial business plan. At the end of this stage it is expected a product prototype and any critical novel technologies to have been demonstrated successfully, resulting in what some might call a product or technical *proof of concept*. In the blueprint stage, there is a need to connect more sophisticated capabilities for business innovation to unmet customer needs in the BoP.

Validate: in this stage, they have to validate the commercial viability and scalability of the business model through market trials in which business plan assumptions are tested. In the validate step, the firm requires up-front investment to enable multiple rounds of market trials as it tests and refines its core business model, and good counsel to help it stay focused on the key questions it must address.

Prepare: this is an initial period of commercial activity and growth when companies need to prepare the conditions in the market and within the firm in order to support sustainable scaling. During the prepare stage, heavy investments are often required to improve the tough conditions of the BoP business environment and to pave the way for growth. In the prepare stage, funders could support marketing and education campaigns to drive awareness among BoP customers and create desire for new beneficial products; upgrade BoP supplier or labour force capabilities through training programs, information provision, certification and/ or fixed asset building; upgrade infrastructure for distributing products to the BoP customer; strengthen management teams and systems within enterprises.

Scale: scale means reaching many more customers or suppliers.

In these first phases, the typical financial instruments in use are *convertible grants, interest free loan e royalty-based loan* in order to allow the enterprise to have a light structure. Whereas, the bulk of impact investing typically goes to more mature companies when a business model has been tested or validated and scale achieved. Thus, in the early stages, many social enterprises that aspire to become financially sustainable ends to depend on philanthropy and highly concessionary investments that involve higher risks than ordinary market investors would take. If, grants, as the Monitor's report highlighted, could close gap between blueprint and scale, they are not a scalable source of funding. Just private capital might help social enterprises to grow quickly, and impact more seriously, giving the right input to scale. Impact investors, as sources of equity or debt, might be the solutions to attain a good level of scalability. *To sum up, initial impact-first financing can be in the form of grants, technical assistance and below-market debt, while later stage financing can be approached through innovative fund structures*.

Shown below, we will explain how dealing with an impact investor might cause improvements in a social enterprise's growth.

A key benefit of venture investors is their *ability to provide,* directly and indirectly*, managerial inputs* in the company they have invested. Dealing with an impact investor improve the "more traditional" entrepreneurial and managerial skills of a social enterprise. Just to start, impacts investor's decision is usually based on the presence of a solid and concise business plan, a skilled and credible management team able to put that plan into action, the company's financial viability and a clear and realistic exit plan for the investor. In addition, companies are often required to set the books, accounts right and have proper legal documentation. Hence, an impact investing firm usually undertakes detailed due diligence of a prospective investee venture before making an investment. Be compliant with all the requirements and going through the process of due diligence in itself helps the company in strengthening their internal processes. A social enterprise is obliged to meet all these eligibility criteria and, in order to do that, indirectly, it acquires or improves a series of expertise and competencies necessary to run a sustainable and profitable business. Lastly, being engage with private capital forces constant innovation in investment models.

Then, impact investors are often willing to directly provide several supporting services and mentorship activity about recruit, build and retain a good team, leadership and teaching the entrepreneur to think in a particular way and be able to pitch to commercial investors. Obviously, suggestions about human capital management and corporate governance practices are useful for a young social start-up. Impact investors help in strengthening internal systems, assist in building a strong team, in strategizing and taking business decisions. *Through these assistance activities, they ends up to transfer to social enterprises their better domain knowledge and deep understanding of the sector. Such managerial inputs and value additions abets to increase the valuation of the investee companies.*

It is more likely that one round of investment will lead to another, with each round seeing a higher infusion than the previous one. In fact, firstly, the competencies acquired thanks to the previous engagement with an impact investor favours the company to command a better valuation for subsequent financing rounds and impact investor's linkages are a rich resource. Secondly, the long duration of impact investments helps also in building trust among all stakeholders. In addition, being the recipients of a consistent amount of money from an established investor allows a social enterprise to increase its *credibility, visibility* and *recognition*, with the purpose to more likely gains a next round of investment and scale up.

The relationship with impact investors *increases the social entrepreneur's professional network*, giving the access to infinite market linkages with clients, suppliers, experts and other investors, helping him explore newer markets and opportunities.

The presence of impact investors leads a certification effect, thereby leading to a larger investment by mainstream venture funds. Thus, all the previous elements facilitate the investee company in getting the following rounds of investments or even investment from the mainstream, beyond a certain achieved level of scale.

However, an important theme in analysing the relationship between social enterprises and impact investors is that of *matching*. *Alignment of vision and mission is a key challenge in order to develop a fertile engagement*. Impact investing can be a powerful fuel just for the right social enterprise in the right moment. Indeed, a deep insight of the practice shows that the main difficulties in making impact investing more effective and having greater impact is not the lack of available capital or the lack of good investment opportunities in the social entrepreneurship landscape, as someone claims, but it is something in between the two. It is matching these sides: for the entrepreneur to figure out in an emerging, crowed and confused world of impact investments what kind of capital fits their stage of development; given their mission, objectives and strategies for the future, who is the right investor; and which is the right funding mix. *Thus, the biggest obstacles for a social enterprise in getting the money to scale is find the other piece of the puzzle, i.e. the fair investors. It is all about the right person at the right moment.* Most of the time, especially in developing countries, social entrepreneurs have not the skills, competencies and experience to fulfil this task in the best way and this in part might explain why impact investors complain the lack of good pipelines to invest in and social entrepreneurs complain the lack of money. *That needed to make it happens is information*. Access to information about investors, their mandates and capacity building initiatives for social entrepreneurs providing awareness and understanding of the space are fundamental.

Finally, *what impact investing industry needs is more dialogue and exchange between investors and entrepreneurs*. The key point is working toward building a common marketplace: increasing collaboration and support between the two leading actors, impact investors and social entrepreneurs, as well as between social entrepreneurs themselves and impact investors themselves. In a nutshell, channels of peer to peer knowledge are essential. Social entrepreneurs need to create platforms to share their successes, the nature of typical challenges they face and how they behave. Investors need to launch early examples of collaboration: mentoring programs, business plan competitions and joint pools of seed stage funding (Bugg-Levine, Emerson, 2011).

SOCIAL ENTREPRENEURSHIP IN INDIA

In India, in less than a decade, social businesses have become a huge phenomenon with a various and continuously evolving ecosystem of supporting players: incubators, sector enablers, consultants, grant-makers, impact investors. Today India is one of the world's largest breeding grounds for social enterprises, which are changing the face of development in this country. We can state that the industry is now moving from its infancy to its youth. India social enterprises are young: the industry took off in 2005-2006, at a time when for profit microfinance in India reached its peak. In general, enterprises that have been in the business for less than five years dominate the sector. Then, Indian socents are relatively small, both in financial and employment terms: they usually have an annual revenue of less than INR50 lakh (about USD 110.000) and a team fewer than twenty-twenty five employees (this may reflect the difficulties they face in hiring good talents, as we argued later). According to the Report published by the Asian development Bank in 2012, SEs adopted a for profit entity account for three-fifths of all SEs; just one-fifth of SEs adopt not for profit structure. Thus, social enterprises in India overwhelmingly choose the Private Limited Company form (80% of respondents in Intellecap's survey), because social entrepreneurs are becoming more and more aware about the benefits of adopting this shape (first of all the ability to attract financial capital). The second most popular form is the Hybrid one: in the hybrid structure, a for profit entity is responsible for core business operations while a sister not for profit organization provides support services that benefit the business and community without directly contributing to the bottom line. The ADB reports that the 20% of enterprises can be categorized as a hybrid. Indian socents address a wide range of social issues and it is very difficult to point out a dominant sector. For sure, Agriculture/Rural development and Energy are cited in different studies as the most relevant operational areas. *Indian social enterprises are capital hungry*. Only 7% of surveyed enterprises report that they do not currently need any form of external funding and the majority of these are growth stage enterprises that have already secured the necessary financing. Half of the surveyed socents has worked on raising capital in the last 12 months; half of the businesses in the Indian social enterprise landscape have succeeded in raising capital from the markets whereas the other half still has to rely on funding from donors, friends and family[2].

[2] Allen S., Bhatt A., Ganesh U., Kulkarni N., 2012. On the Path to Sustainability and Scale: A Study of India's Social Enterprise Landscap e, Intellecap.

In the following section, we will deepen the structure of the Indian social entrepreneurship sector disclosing a series of shortcomings, which place the businesses in an unattractive position for the mainstream investors. The purpose is to underline the need of a specific category of “sensitive” investors.

Challenges and Improvements of the sector: people and capital

The top two challenges Indian social enterprises face are surely the access to *valuable human resources* and access to *capital*.

All the subsequent themes, if not solved, might prevent the full realization of social entrepreneurship’s potential. Further, they are surely interdependent: one is the cause of the other and working on one of them might provide a solution to the former.

I. BUILDING THE ECOSYSTEM: more incubators, accelerators

It is of paramount importance to firstly building the ecosystem enabling entrepreneurship in general. India currently ranked 132 out of 183 in the ease of doing business (World Bank, 2012), places very low on entrepreneurship with a rank of 74 among 79 countries and ranks 62 out of 125 countries on innovation (Global Entrepreneurship and Development Index, 2012). Ecosystem building activities by the government and the financial industry are critical in this context. For example, the ecosystem can be strengthened by simplifying basic laws around setting up a company, capital requirements and labour law requirement. Thus, the role of ecosystem builders is also advocating for policy change, working on the costumers creating the awareness about this industry, cultivating the community of interested parties. *An example in the Indian context, can be diverting the money of prescribed by law CSR for big towards social enterprise or advocate for the institutions of tax incentives for them as well as for their donors*.

In India it is very common to find really passionate single entrepreneur willing to solve the problem, set their own business, ready to invest family’s, friends’ or their own capital. Anyway, in a world where most of the enterprises are small and have to operate at the lowest cost point possible, capacity building is often a luxury. Often their management and financial skills are not enough to successfully establish in the market, for example, they are usually not able to speak the “investors’ language”. Intellecap (2012) reports that a lot of enterprises died before reaching the VC moment. Thus, there is a big scope for *early stage mentoring intermediaries, ecosystem builders, incubators* before the enterprise can be ready to raise capital.

Incubators should build the organization’s capacity, providing a range of services from non-financial support, financial advisory, strategic advisory in business model development or product development to legal advisory and technical assistance. *Intermediaries’* duty is to build the capacity of the organizations and bridging the gap between investors and entrepreneurs. In fact, there is an evident dis-alignment usually expressed through social entrepreneurs’ complaining that there are a lot entrepreneurs look for few money and investors telling that there is a lack of good quality investable opportunities.

In India an important gap to cover (Intellecap, 2012; Bathi and Manimala 2011) is helping social enterprises in building and manage a good quality teamwork (human capital assistance). A lot of *fellowship programs* and *business competition/awards* already exist to work on this; but it is not enough.

All these needs are especially urgent in the very first step of a social enterprise's life, namely the same moment where the companies are struggling to secure funding and are not able to buy the desired services. Indeed, these actors have the possibility to provide, jointly with free supporting services, soft funding essential for the enterprises to address initial key one-time costs and to dismantle barriers to scale or viability.

Anyway, the most necessary contribution that perhaps incubators can and should give is creating the right market linkages and opportunities for networking. Sharing experiences, good or bad stories in order to strengthen the industry is of crucial importance in fostering the development of social entrepreneurship. The ultimate goal should be to build few common platforms easing the access to relevant information such as research on theme, successful cases; and ultimately attracting the attention of the mainstream public.

II. HUMAN CAPITAL: finding and retaining good talent

"While overall interest in social enterprise careers seem to be on the rise in India, social enterprises themselves face continued challenges in attracting and retaining skilled employees."[3]

The SEs' industry suffers from a lack of qualified professionals in critical business areas like marketing finance and operations. Intellecap's (2012) survey has identified significant gaps between the demand and supply of skilled professional. Nearly 40% of respondents had compromised on employees' experience or qualifications in at least 1 in 5 hires.

It is widespread knowledge that social enterprises strive with various critical human resource problems such as getting employees at low rates of compensation, providing growth opportunities for employees within the organization, retaining talent, especially in the middle management, providing clearly defined roles and tasks to employees, etc., leading to high attrition and increasing the cost of acquiring and training new employees (Bathi and Manimala 2011). *The constraints that an enterprise faces in hiring and retaining talent reflect in part the industry's youth and the realities of doing business in India, but also the unique social nature of these enterprises*. Social enterprises are in an uncomfortable position since they asked their employees to let go some, if not all, benefits that are often associated with successful careers in the commercial sector. They ask them to work hard, going into rural villages, acting in a risky, not stable and unstructured context, especially at the beginning of their business life. On the other hand, they have limited resources to devote to staff salaries and to a good quality recruit management team. Thus, socents look for employees with patience and willing to comprise on returns (they usually are able to pay 30-40% less than traditional businesses).

Social enterprises find particularly hard, first, to recruit senior and little management and secondly to catch good entrepreneurial skilled people, more than people good in the social part. This ends up in social enterprises that deploy human resource management efforts on hiring, diverting attention from the need to manage hired talents. Indeed, they sometimes does not have so much focus on governance issues due to their

[3] Villgro Innovations Foundation (2013), Overcoming Barriers to Scale: Lessons on Infusing Talent into Social Enterprises.

backgrounds. The problems of governance the SEs face might be a future path of research, since they exist but no one spoke about it.

Sector enablers, as we said, should serve as linkages between corporations, universities and social enterprises and should help to ensure the matching between employees' expertise and the need of the social enterprises.

Madimala and Bathi (2011) identify several innovative HR strategies that can be adopted by enterprises to attract and retain talent, some of them might be specifically helpful for social enterprises: *offering jobs to people with vision and value congruence, enhancing the credibility of the organisation through brand building, providing opportunities for personal growth, creating entrepreneurial opportunities within the organisation, finding employees from among beneficiaries*.

Successful talent *infusion* is thus critical for the health of India's social enterprise.

III. *RAISING CAPITAL: what are the main obstacles for a SE in raising money and which kind of SE has the biggest difficulties?*

The most evident challenge is to fill the gap in the existence of angel and seed investors, as we will deepen later in the study,

First, social enterprises usually work in sectors where traditional VC funds are not focused. Second, banks are not sensitized enough to be considered a valuable source since the ecosystem around social entrepreneurship is still developing. Intellecap's respondents state that there is a sufficient supply of capital, as well as investors in the space say that there is plenty of capital. On the other hand, the former indicate that they are not able to access to it and the second ones that there is a lack of "investable" enterprises. The most cited causes for that are (Intellecap, 2012):

For SEs

- Revenue requirements for equity investors;
- Limited networks for gaining access investors;
- Complex process of fund raising/ lack of knowledge on how to;
- Lack of investors who are willing to fund startups.

For investors

- The need for refinements to the business;
- Limited track record;
- Business model is not firmly established;
- Un-scalability of the model;

It is important to highlight that at each phase of an enterprise's development, it requires and draws on different types of finance for a variety of purposes and time lengths. We can introduce the concept of *Blended Capital Curve* (Huppé and Silva, 2013) or *Funding Curve*. It consists exactly in segmenting the capital requirements of a social enterprise, according to the moment in its life-cycle and the needed amount:

– *Seed*: Less than USD 500k

– *Series A*: USD 500k to USD 2 mn

– *Series B*: USD 2 mn to USD 5 mn

– *Growth*: > USD 5 mn

There is an initial stage (typically first 9-12 months) where the owner, family, friends or angels' money, subsidies and grants are necessary in making the enterprise investment-ready: a pre-venture or pre-revenue stage. Then, there is the early stage phase, in between 12-48 months: now there is the possibility for a social enterprise to create a hybrid capital structure including a consistent amount of private capital. *Here there is the space of risk tolerant early stage investor*. In the third year of SE's life, it is the moment to scale up and growth. An optimal financing structure for social enterprise would consist of grants or philanthropic capital in general in the first life cycle stages with its focus on innovation and proof of concept, followed by equity and debt capital or commercial capital in the scaling phase.

We can try to draw *an ideal type of social enterprise that find the most difficulties in raising money*. On the other hand, a lot of those who need fund are first time entrepreneurs, which do not have the traditional financial skills in terms of fulfilling due diligence or how to manage the cash or accounting; this make them not "investors friendly" and not able to pitch to investors. This immediately brings us back to the necessity of incubators, mentors and capacity building programs.

The hardest capital to find is *seed capital* (something in between family/friends and Series A) and *debt capital*.

The seed capital is what you need after the first infusion of family and friends' money to put in place the activities necessary to prove the concept or product; after then you will be ready for a venture capital fund investment. The problem is exactly here: just once you get the proof of concept there are funds out there. Many impact investors invest only in social enterprises that have gained some on-the-ground traction - be they multi-site pilots, early success in acquiring and satisfying customers, and some revenue generation. Thus, the hardest period for most enterprises to fundraise is during the pilot stage before they have built a track record or adequate turnover; even impact investors, which must generate, even lower, financial return to their own investors, are reluctant to engage in such an early stage. *One option is that angel investors should close this gap*. A community of SEs' angles investing could tolerate greater risk for the potential of a high social impact payoff. *What is missing is real "risk-tolerant" and patient investor.* Given this scenario, another possibilities for pilot-stage enterprises is to look for grants from grant-makers, business plan competitions, incubators, fellowships, pursuing funds from multiple sources.

Thus, the challenge of securing enough seed capital becomes critical because it employs efforts, which may be dispose in more important strategy and operational matters.

In terms of sectors, for social enterprises operating in education and healthcare is easier raising money because the problems they try to address are immediately understandable from both donors and consumers; companies working on agriculture or sectors subjected to rigid regulation find more difficulties because they need a lot of capital expenditure. Then, sectors as water and sanitation are very new thus, they face the difficulties in making the value of the problem perceived; whereas the livelihood sector used to be prerogative of big international NGOs, so shifting to a hybrid model appear to be more difficult.

Hence, how does a social enterprise get to a point at which it is investment-ready for impact investors - even early-stage investors? How does it fund this evolution? We have seen a major gap between the needs of most social enterprises (requiring early stage angel finance) and where most impact investors sit along the conveyor belt of capital. *These findings suggest a sort of mismatch in the field: social enterprises are aware about their necessity to become "investment-ready", but the tools in the ecosystem that should help them in this task are still not enough. Moreover, on the other hand, the "investable definition" of the investors may likely not align with the realities or the needs of the field.*

Thus, the greatest financing challenge is not a limited supply of capital, but social enterprises' limited access to it. This reveals a dis-alignment in the industry between investors' requirements and expectations and what social enterprises need. Even in India the challenge, as we point out in the previous chapter, is finding the right matching: the right investor for the right social enterprise, in the right moment. However, this will not happen naturally; it needs significant efforts from both parties and the help of third actors (incubators, mentors, intermediaries, educational institutions).

IV. MEASUREMENT: lack of solid data

There is a shortage of solid data about the real impact of social enterprises. *Social enterprise seems to be just a great story, but not connected with facts and figures*. At the same time, this is another of the most sought requirements from investors. Measure the impact is also necessary to establish the credibility of the industry, attracting more and more people from the traditional market not just as investors, but also as entrepreneurs, employees, and researcher. Proving the impact is also important to increase the trust of potential consumers from the BoP making them aware of this new way to solve their problems.

V. BUILDING THE VALUE CHAIN: creating a not-existing market

Fisher and Moon talk about the "*base of the pyramid market penetration problem"*. *In fact, in countries where mass poverty means that even the most basic needs of millions of people are not met, often there may be no market that a company can enter and entry decision might thus revolve more around how to build markets than to enter them*.

Customer adoption is very complex because they are completely no-consumers: they do not have the mindset of pay and they were never used the products before. Even more, usually BoPs are not aware about their own shortages. Thus, market penetration at the BoP requires also social marketing and education along with traditional marketing and distribution activities (Desa, Koch et al.). Social enterprises need to create a market in terms of building, first, the awareness of the need and then the awareness about the value of their product and service. Social enterprises offered what are labeled as *"push"* products or services require extensive marketing in the sense of making poor people know they are experiencing a severe problem that can be solved by a market-based solution. BoP social enterprise, thus, has to implement education program for these reluctant costumers about not just the product, but also the problem it wants to address.

Create the market, understand the demand willingness to pay, show the value in the product are tasks that are more complex when you target BoP costumer. *Understanding what the BoP needs, wants and is willing to pay is one of the most mentioned challenges by social entrepreneurs*.

The next step is not easy as well: creating the right model to serve poor people in the specific local context where they are, focusing on the peculiarity of this landscape. This is even more difficult in a huge and diverse market as India, where each State should be seen as a different market and what works in a State does not work in another.

Lacks of infrastructure represents another difficulty: especially rural distribution is very hard in India. In the vast rural BoP areas you can not take it for granted that the existing distribution channels are able to get the products to customers. Thus, supply and distribution infrastructures often cannot be contracted with or acquired and have to be built from scratch.

Socents must often innovate on multiple fronts to address skeptical customers, weak distribution channels, inadequate infrastructure and limited supplier options[4]. Addressing these issues increase dramatically the time and cost efforts for a social enterprise: building your own distribution channels implies sellers training; low-quality access to roads, electricity and telecommunications is a huge obstacle; financing educational programs is a further burden etc.

VI. SCALABILITY IMPERATIVE

"The challenge of market-based solutions is to imagine business models that not only create products, services, and socially beneficial results but will also reach large scale"[5]*.* Scaling is going to be one of the most important things in the huge Indian market because if social entrepreneurship wants to effectively change the BoP's lives, they need to breakthrough on a massive scale. In India, scaling is mandatory, give the size of the country, of the population and the deep of social problems. *Moreover, this is often one of the criteria driving the impact investors' choice; they look for social enterprises seriously able to scale up*. However, attaining scale is more difficult in impoverished areas where basic infrastructure is lacking, solutions must be end-to-end, and logistical challenges are great, i.e. in most of the areas targeted by social enterprises. As for India, the task is even harder: what works somewhere in India is very unlikely is going to work somewhere else. Every state or region can be considered as a market apart with its language, traditions, habits, political and economic conditions. Anyway, in order to scale, there is a need for the businesses to secure more funding from larger investors. When larger investors look at the low margins of the business, they may not be willing to invest in the business; the above underlined mismatch in investors' return expectations can harm the scaling up process of the business.

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[4] Allen S., Bhatt A., Ganesh U., Kulkarni N., 2012. *On the Path to Sustainability and Scale: A Study of India's Social Enterprise Landscap e*, Intellecap.

[5] Karamchandani, A., M. Kubzansky, and P. Frandano (2009), Emerging Markets, Emerging Models: Market-Based Solutions to the Cha llenges of Global Poverty, Monitor Group.

IMPACT INVESTING IN INDIA

"Impact investment is imperative in India. This kind of investing seeks businesses and social ventures that can deliver measurable social and/or environmental impact as well as appropriate financial returns in sectors such as education, health care, sanitation, environment and infrastructure."

Planning Commission (2012), *Creating a vibrant entrepreneurial ecosystem in India*.

Indian has become a hotspot for impact investment from the outset of microfinance movement that was introduced by pioneers M. Yunus and A. H. Khan with the goal of helping poor people escape poverty by providing them with better access to loans and financial services in general. *Microfinance* has showed many investors the role capital can play in a for-profit investment that can achieve both financial and social returns.

Another significant drive for the impact investing growth in India has been the *Government* itself. Since the 1970s, it has helped to advance enterprise-based development by promoting investments in priority sectors like agriculture, small enterprises, retail trade, education, housing and finance or underserved areas, through various financial sector policies and programs. For example, the requirements by the Reserve Bank of India have driven significant funding to microfinance institutions. A milestone in the impact investing progress was also, when, in 1982, ASHOKA Foundation started to provide grants to Indian social entrepreneurs. Then, in 1997, Grassroots innovation Augmentation Network (GIAN) became India's first not for profit socially minded venture capital fund and, in 2001, Aaavishkar became the country's first for-profit counterpart. During 2005-2007, other funds, such as Bellwether Microfinance Fund, began to focus on microfinance companies; since then the number of players and the size of funds have increased considerably.

Recently, in 2010, the president of India inaugurated a *Decade of Innovation* wherein innovation, entrepreneurship and impact investing are promoted in order to foster an enterprise-based inclusive economic growth. The governmental plan includes several initiatives such as the creation of the National Innovation Council, the establishment of Cluster Innovation Centers and, more importantly, the recent launch of what we consider an important step forward for the Indian Impact Investing and Social Enterprises industry: the *India Inclusive Innovation Fund*. It is an early-stage venture fund to invest directly in social enterprises that generate a modest financial return alongside measurable impact. The IIIF fund will be capitalized to an eventual target size of INR 5000 crores (over about USD 950.000) and it is intended to give out seed funds and grants to companies at both early and growth stage focused on the BOP over a proposed 10 year period, extendable by up to 3 years. It is anticipated that 20% of the capital will come from the Government of India and 80% of its capital will be sourced from private investors, philanthropists, and bilateral and multilateral institutions. The fund will be an autonomous and professionally-managed entity and will invest in enterprises focused on inclusive innovation, as well as in other funds that currently invest in such enterprises. In addition to the financial support provided through the fund, a network of mentors will be created to build the capacity of enterprises.

Lastly, in January 2013, Rockefeller Foundation and Omidyar Network joined hands with Dasra, launching *India Impact Economy Innovations Fund* (IEIF). IEIF will *fund projects that seek to enable earlier stage capital solutions, foster entrepreneurial ecosystems, produce research into policy development, promote and establish the impact investing industry infrastructure, develop market ecosystems for specific sectors and form leadership and networking platforms for common actions*.

Although, Impact Investing in India still falls significantly behind traditional venture capital and private equity investments, it has become very popular in recent years, a lot it is happening and the future promises seem to be positive.

We can start to pave the way for the future, ensuring that all impact investors acting in the Indian space, and globally, could share a universal understanding of what impact investing is. As for much-debated defining issues around the "impact investing" concept, we find some efforts to solve this point also from local institutions.

The Planning Commission of India itself provided a definition for the impact investing practice.

Investments in businesses and social ventures with the intention to generate measurable social and environmental impact alongside a financial return and which target a range of returns from below market to market rate. Impact investing is based on the conviction that such investments play a crucial role in addressing social and environmental challenges.

This definition re-echoes those given by the main global organizations, including the intentionality and measurement aspects. Furthermore, it shows awareness about one of the main characteristics of the Indian Impact Investing Landscape: *its high density of players with a broad spectrum of expectations*. Eventually, the last part of the statement is very interesting in expressing the rationale underlining all the Indian Government recent programs, i.e. a push towards innovation in all sectors and social enterprises as key actors in implementing this idea and supporting the Indian inclusive economic growth.

As we mentioned, a new self-regulatory body, the Indian Impact Investor Council (IIC) (counts members such as Aavishkaar, Elevar Equity, Unilazer Ventures, Omidyar Network), has been recently created in order to set standards for impact investing and function as the nodal body for impact measurement and reporting. One of its objective is to define the boundary conditions for impact investing and create a universally accepted definition of impact investments that aid in the standardization of impact measurement methodology and metrics. Its definitional attempt is still in progress, but it pivots on the fact that a set percentage (near the 100%) of customers should belong to a certain income level or to vulnerable population or a geographical area not easily accessible.

The current Indian Impact Investing Landscape

India is the second largest market for impact investing in the world after the U.S. with USD 500 million worth of investments made in 2012 alone[6]. The industry has had its developmental phase between 2010 and 2012; nevertheless, already in 2010, a survey of 31 social investment funds conducted by *GrayGosht Ventures* report that about *30% of global impact investment capital focused exclusively on India.* The Government of India Planning Commission estimated that about *USD 80 million* of impact investments were made in 2011 and *USD 260 million* investments have been made in the last five years. In addition, since it is estimated that *USD 5 billion* would be needed over the next decade to fund entrepreneurship's growth by way of investments, it is thought that "*a significant part of this would need to be impact investing to address some of the India's key*

[6] Money Control (2013). How Impact investing could affect biz in India.

development issues such as sanitation, clean drinking water, affordable health care and clean technology" (Government of India Planning Comminsion, 2012, p. 15).

Size

To give an idea about the relevance of the impact investing sector out of the entire Indian economy, we can look at the data provided by *2013 Unitus Capital Report*[7] about the private equity transaction activity for impact investing in India. *It states that, impact equity investing, in 2013, comprised the 23% of the overall private equity transactions in India.* These investments were spread over 80 deals and totaled a quantum of USD 390 million.

Moreover, the data from *VCPE Report released in 2013 by the IIT Madras* allow us also to make a comparison between the average amount of impact investment made in a year, around USD 1 mn, and the average yearly VC investment in India during the same period is about USD 12 million.

As for the ticket size of deals, the range between 2 and 5 million USD accounted about the 30% of all transactions, according to Unitus. The average investment per deal in impact investment works out to be USD 2.2 mn[8], considerably smaller than the average deal size seen in VCPE investment (USD 32mn). This makes sense considering that these small-size investments are exactly the ones, which do not get adequate attention from the mainstream investors. Impact investing is tapping an important market gap, facilitating the availability of lower investment ticket sizes in the early stage enterprises in those companies and sectors that are expected to have a social impact. When the industry will mature, with a greater number of companies, which have obtained early stage funding and have started getting late stage funding, the average investment per deal can also be expected to increase.

North vs. South

In terms of *geographical distribution* of investments, even if there is agreement in indicating North and North-East of India as the most needed areas, Southern regions clearly dominate in terms of numbers of deals and amount invested. This because in South India there is a better enabling environment causing the presence of a greater number of investment opportunities and better business support infrastructures to favour the investment process. This impact investing trend seems to be in line with the one seen for social entrepreneurship, which is characterized by a dominance of companies from the Southern regions. This can be explained by the youngness of the practice: at the moment, investors look for quality investment opportunities in the larger cities where the conditions are more supportive in terms of business, also given that investment opportunities, in these initial years, are actually lacking in smaller cities. However, this implies that social entrepreneurs in the smaller cities may have difficulties in accessing impact investors: those grassroots entrepreneurs we had spoken about several times across the study. For entrepreneurs to successfully raise funds from smaller cities there is a need for more and better inputs for entrepreneurship development in such locations. Thus, with the passing of time, investors would actively venture into more difficult geographies.

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7 Unitus Capital (2013). Indian Impact Equity Investment Report.

8 VV.AA. (2013), India Venture Capital and Private Equity Report 2013, Department of Management Studies Indian Institute of Techno logy Madras.

Time

The *VCPE Report* released in 2013 by the IIT Madras investigating the investment activities over a period of 13 years, let us notice that *impact investment activity in India picked up only after 2006 (interestingly the same period Intellecap Report suggests as starting point for the Indian Social enterprise sector*). The noticeable drop in investment activity during 2011 and 2012 can be attributed to the micro-finance crisis and also to the general slowdown in the overall VCPE industry during the years. They registered an average of about 69 impact investment per year during 2006-2012. Other data that *help us to highlight the youngness of Indian Impact Investing is the number of rounds of funding raised by a company: really few companies have successfully raised more than three rounds*. The survey also shows a considerable higher period (on average 17 month) between one round and another compared to one seen in the overall VCPE investment. This can be explained, firstly, by the considerable time and efforts fundraising requires to social entrepreneur; secondly, the fact that social enterprises take more time to scale up as compare to mainstream enterprises. Another timing data is a clue of an interesting impact investors features: the average investment duration, i.e. the amount of time the investor had stayed invested in the company; the average duration of a social fund is 57 months compared the 46 of a mainstream fund. *It shows the patient nature of impact investors*. Since social enterprises are expected to take more time in scaling up, they would need investors who can stay invested in the company for a longer duration and who would not unduly pressure to entrepreneurs to provide them a quick exit.

Table 2.5: Distribution based on the year of investment

Year	Investment ($, million)	Cumulative % of total investment	No. of deals	Cumulative % of total deals	Average investment/deal ($, million)	No. of companies	No. of deals / No. of companies
2001	7.82	1%	8	2%	0.98	5	1.6
2002	18.02	2%	2	2%	9.01	2	1.0
2003	0.67	2%	2	2%	0.34	2	1.0
2004	1.25	2%	6	3%	0.21	4	1.5
2005	8.52	3%	19	7%	0.50	14	1.4
2006	121.04	12%	42	15%	3.10	28	1.5
2007	273.39	33%	83	31%	3.75	37	2.2
2008	162.77	45%	83	47%	2.09	52	1.6
2009	277.79	66%	98	66%	3.02	58	1.7
2010	235.62	84%	82	81%	3.57	58	1.4
2011	160.27	96%	70	95%	2.72	39	1.8
2012	36.12	99%	28	100%	1.81	17	1.6
2013#	7.82	100%	8	100%	0.98	5	1.6
Total	1303.28		523		2.82	212	

Figure 1: Distribution based on the year of investment.

Source: Indian Institute of Technology Madras. 2013. Indian Venture Capital and Private Equity Report.

Future

Impact Investing as a segment is expected to continue growing at 30% in 2014. Therefore, it will take at least another 7-9 years before it reaches levels where traditional venture capital and private equity investments are today. According to the global trend, impact investing could grow to represent 1% of the total estimated current assets under management, about USD 500 billion; thus, given the significant interest of investors towards India this could translate to anywhere between USD 5 and 25 billion for Indian market.

Examples of successful exits are very rare. Just, pioneering funds like *Aavishkaar*, *GrayGosht Ventures* and *Acumen* has shown few exits. Aaiviskhaar can boast 9 Exits And 4 Part-Exits; GrayGosht Ventures has gained two exits: one in the U.S. and one in Bangladesh, but none in India. Nevertheless, this is again an aspect inherent to the infancy phase of the sector.

INSIGHTS FROM FUND MANAGEMENT FIRMS' INTERVIEWS

#	*Name of the Organizations*	#	*Name of the organizations*
1	Aaavishkar	*17*	Insitor Management
2	ACCION Venture Labs	*18*	Intellecap Impact Investment Network (I^3N)
3	Accenture	*19*	LGT Venture Philanthropy
4	Acumen Fund	*20*	Lok Capital
5	Ankur Capital	*21*	Mumbai Angels
6	Aspada Investment (SONG Fund)	*22*	New Ventures India
7	Bamboo Finance	*23*	Omidyar Network
8	CIIE-IIM Ahmadabad	*24*	ResponsAbility
9	Be!Fund	*25*	Rianta Capital Zurich
10	E+Co	*26*	Root Capital
11	Elevar Equity	*27*	Unitus Capital
12	Ennovent- Social Enterprises Fund	*28*	Unitus Impact
13	Grass Roots Business Fund	*29*	Unitus Seed Fund
14	GrayGhost Ventures	*30*	Unilazer Ventures
15	Impact Circle	*31*	Ventureast
16	Indian Angel Network (IAN)	*32*	Village Capital

Table 1**:** List of the Impact Investors active in India.

The impact investment industry in India is dominated by fund management firms that manage the capital of a wide range of limited partners. We can see in Table 1 a not-exhaustive list of the most important impact investors having made at least one investment in India. Highlighted in grey there are the respondents to the series of interviews directly conducted on the ground. Relevant trends have emerged and they will be particularly useful, on one side, to support the above mentioned global findings from scientific centers and, on the other side, to draw the necessary conclusions about the industry.

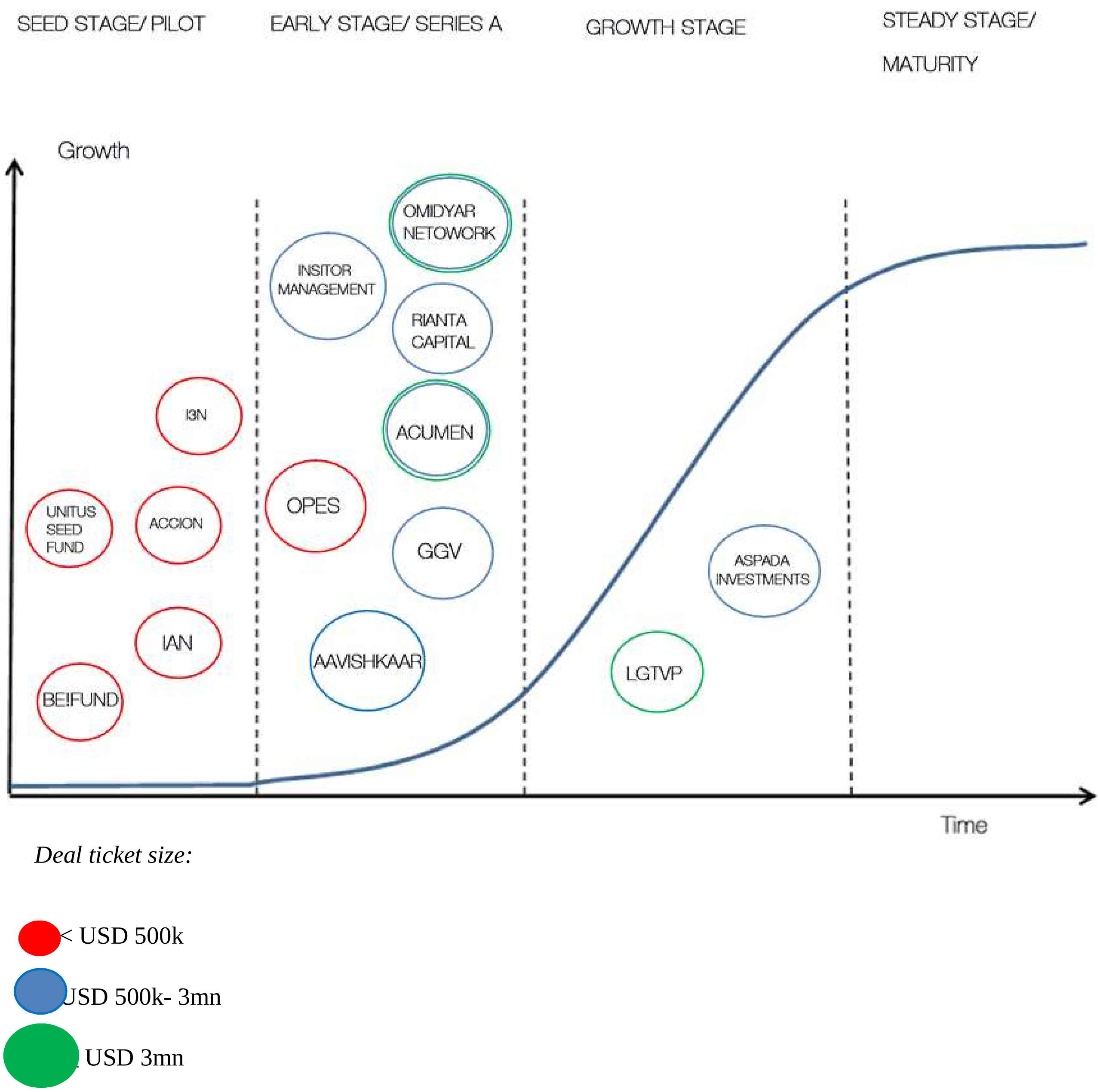

Figure 2: Positioning India Impact Investors in the social enterprise's lifecycle.

Source: Adapted from IISD Report 2013.

From *Figure 2*, we can appraise the *mean size of investment* and the *most targeted enterprise's stage* to invest in. Most of the fund target on in early stage companies; whereas the seed and mature social enterprises seem not to meet the equity investors' favour. They usually define the "early stage" as the moment when the enterprise as a sort of proof of concept and business, i.e. it has already validate the product or service, it has already some clients and it needs the fund to scale up.

Spread across sectors and geographies

It is rare that funds look at just on one sector (apart from ACCION Venture Lab's mandate closely linked to its funder's mission). They usually targeted four or five sectors ranging from education, healthcare, agriculture, clean energy, financial inclusion and the emerging affordable housing sector. Moreover, it is not rare to find investors who include in their pipelines enterprises working in "more" traditional sectors such as ITC or mobile and technology. Most of the investors say they are focused on pan India, thus the prevalence of investments in one is more the results of existing conditions than a precise choice.

Money from abroad

The space is spearheaded by foreign and global funds which has a branch or a local office in the Indian metropolitan cities (Mumbai, New Delhi, Bangalore, Chennai, Hyderabad) managed by local staff. However, they cater money from Western countries, especially U.S. *India is yet to achieve a leadership as a source of capital*. Impact investors are typically registered as LLCs, with few examples of not for profits organizations (Acumen).

Just Equity

There is a clear dominance of equity-based investments (equity, quasi-equity or preferences instruments); this is because the Indian regulatory environment inhibits the provision of debt to companies from foreign investors. Some (LGTVP or Acumen) of them also provides grants to not for profit organizations. They source capital mainly from private investors, i.e. high net worth individual or families, followed by DFIs and donations.

Impact Measurements

Most of the funds use proprietary impact measurement systems to assess the social performance of their portfolio companies, though they do not seem to be so much interested in tracking the social impact results of their investees. A common thought among fund managers considers the social impact measurement as a time-consuming activity and they do not want to burden their portfolio companies. They usually just make an initial appraisal, before the investment decision, about the social mission and the impact of the enterprise and it seems to be enough. Moreover, they do not express so much comfort towards the emerging third-party standards such as IRIS or GIIRS.

Sources to build the pipeline

There is not an agreement on the definition of what is a social enterprise; the most used defining criteria is a company targeting market low income or BoP people plus working in certain sectors. They look for investment opportunities mainly through their formal/informal networks; specific platform; or they are the enterprises themselves, which approach them. The key-points in picking up the enterprises are the potential for scalability of the business model and the promoter's background.

The investors state a very low (on average less than 5%) percentage of enterprises that have been considered (at least meet once) and those who passed all the financial and social screening process. The main reasons of this gap appear to be the commercial viability of the model and the misalignment with the investor's mandate.

Active Investors

Almost everybody provides a sort of formal and informal supporting services.

They declare to work *hand in hand* with enterprises assisting them with expertise, suggestions: from building and refining the business plan, legal and financial advisory, human capital management, connections to investors, suppliers, clients… *This feature appear to be one of the few differences perceived by social enterprises between impact and traditional investor*. *Social enterprise declare to be comfortable in dealing with impact investor, even when the seat in their companies' board*.

Investment process

The investment process on average lasts between 6 and 10 months and the due diligence methodology is very similar to the traditional commercial VC sector.

Broad spectrum of financial returns

There is a wide range of return expectations from just preservation of capital to a market rate of about 20-25% per annum. Many investors state to use financial returns just as a mean to secure and prove the enterprises is actually having an impact.

Yet no exits

There is a huge lack of solid data about results of impact investing as whole sector and the exit scenario is not great. The outcomes indicate that few funds have had successful exits from their portfolio firms in India. We can assess the health of the sector just in terms of organizations, which have been able to scale up significantly. *Anyway, the future pathway seems quite bright since the fund declared an average of seven planned investments for the following year, with an increased or at least constant amount of capital.*

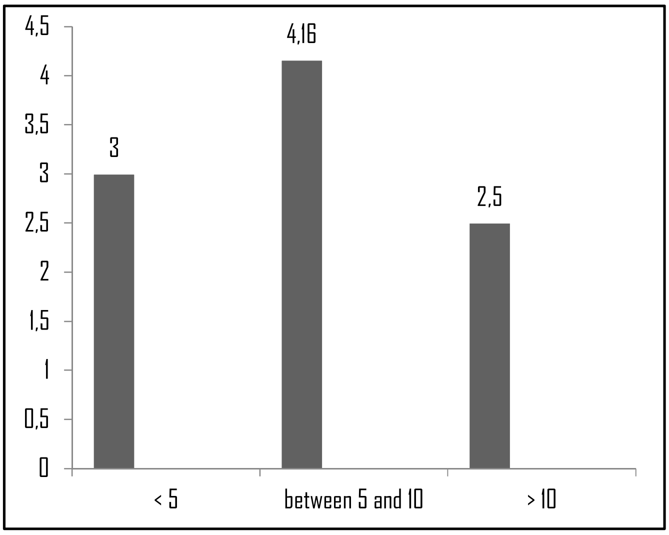

Figure 3: Planned investments for 2014 (%).

Investors' profile

It follows a representative description of a few of the many impact investors active in the India landscape, specifically focusing on their mandates and investment strategy. The aim of this section is to shed the light on how the Indian Impact Investing landscape is populated by a heterogeneous group of players and, indeed, how might be a hard work for social enterprises to surf in this spectrum, figuring out who is the right partner. On the other hand, it might be an inspiring suggestion for both global SEs and investors.

SEED STAGE

1. **The Seed Stage Leader: UNITUS SEED FUND.**

Unitus Seed Fund is the latest spin-off of the "big *Unitus Labs* family". The other Labs "relatives" are: *Unitus Capital*, a traditional investment bank hired as an advisor by their clients with a ticket size of USD 1 million; *Unitus Equity Fund*, an early stage microfinance venture fund with a smaller ticket size managed by Elevar equity; *Unitus Imapct*, early-stage impact investing firm focusing on Series A from USD 500.000 to USD 1 million investment in companies creating livelihoods in Asia.

The youngest member, Unitus Seed Fund, span out two years ago, in 2011, as a separate venture investment management firm. USF is a new USD 11 million seed-stage investment fund based in Bangalore and Seattle that invests in startups serving large, underserved low-income populations. It aims to accelerate the development of these startups providing seed-stage equity capital to strong entrepreneurs who are building scaled, profitable businesses which provide a positive benefit to populations living at the base of the economic pyramid. In the first round, they have sourced USD 8 million capital mainly from foreign investors, especially from US; however, the second fund, launched in 2014, has also turned to Indian domestic investors, ending in a mixed fund of dollars and rupees.

The core strategy is to invest in profitable, scalable companies that also have built-in scaled positive impact on large low-income populations. They focus exclusively on seed-stage equity investing in high-growth sectors - education, livelihoods (employing or increasing income of BoP), necessities (agriculture, water and sanitation) - in India. The typical investment ticket size is between USD 50.000 and USD 100.000 with the main purpose of helping enterprises get from pilot stage to being ready for a Series A investment which will then get them to scale up. Their scope is not having a company fully scale up by any means, but just give them the seed they need to really validate every part of their pilot in order to attract the follow-up investment that will enable their scalability process. Indeed, typically growth phases start about 18 months after their first investment.

As for the investment process, the distinguish factors are *moving quickly* along the process and *making a lot of investment due to the small ticket size*. Thus, they are very active in building the pipeline, sourcing investment opportunities by networking with other investors, bloggers and the Unitus Labs' network. Their screening process is based on company's business fundamentals, team and capability enhancement, preparation for growth; and on the general baseline metrics that in five years a company must impact 100.000 lives indirectly or touched their lives, employee BoP.

USF also works in partnership with the fellowship program called *Frontier Market Scouts* which selects and trains aspiring professionals who desire a career in social venture and impact investing.

USF has made 7 investments so far. One of its investee companies is *Milaap*, an online fundraising platform which enables anyone around the world to lend money to the working poor in India through the website. Milaap hopes to provide access to basic amenities, education, livelihood support for at least 20.000 families in the next couple of years.

2. **Just on paper: BE FUND**

Be! Fund is Indian not-for-profit risk capital fund that invests in the poorest young people to start sustainable enterprises that solve problems where they live. It was created in 2011 in Bangalore by Lisa Heydlauff, a former teacher from the UK who runs a New Delhi-based NPO called *Going to School*. At the outset, its aim has been to tell beautiful stories about entrepreneurship in order to provide a real life role model to pupils and convincing them to stay in schools to grow their aspiration. *They have two distinctive points: they focus on young (the 18-29 age group) entrepreneurs from low income population and poor rural villages, giving* them a considerable amount of money*; and the entrepreneurs can approach them just with a business idea* on a piece of paper *to solve a problem in the local community*. After choosing the project, they become more partners in the company than investors, helping the entrepreneur to understand what it is the risk of his business, to improve their products and put them in the market, working on the ground with him. Be! Fund team writes business plans, creates cash flow statements and goes to visit the entrepreneur where she lives, to conduct a site level visit. A sector expert reviews the plan, and every three months, they present over 10 business plans at multiple Investment Committee meetings, where the committee decides whether or not to invest. If a young person's plan passes the test, they receive the capital to make it a reality, and they "*tell their stories every four months through photo stories, online updates and social impact analysis"*.

They usually targeted 25 entrepreneurs every year with a very small ticket size of average USD 5.000 aspiring to be a sort of "something in between venture capital and microfinance". Indeed, they are different from the microfinance sector in that they do not require entrepreneurs to repay the loan if the business fails. They use equity investments with low return expectation highlighting their impact first approach (between 6 and 10%) and seeing them just as a mean to enable entrepreneurs feel more responsible and accountable. Being a charity organization, they raise donations from foreign high net worth individuals and big companies and the returns are completely reinvested in the process to keep on funding other opportunities. The project is part of a larger *Be! An Entrepreneur* mass-media initiative that aims to build an ecosystem where social entrepreneurship is promoted through school books, films and radio. In fact, in the end of the process, "*their aim would be to tell these new hero stories on national television and as graphic novels for children in Government schools, so young people grow up with the heroes we need for the time we're in."*[9] An example of these "hero" receiving a loan is Muniraju, 28, from rural Bangalore. The former FedEx delivery boy devised a plan to recycle plastic by turning it into chips that could be used in various products, including computers. Another similar story is that of Sharada, 20, who received funding a month ago to set up a local sanitary napkin making unit in rural Tamil Nadu.

3. **The Angels: INTELLECAP IMPACT INVESTMENT NETWORK (I^{3}N)**

Intellecap Impact Investment Network is an angel impact investment network that was launched in 2011 to unlock domestic capital and create a vibrant community of angel investors to address the pre-venture-capital-funding gap that exists in India for impact enterprises. It can be better defined as a *Facilitation Platfrom*, operationally, brings together diverse angels and funds that have a broad range of preferences, appetites and sector expertise. By bringing together such a network, it provides access to local mentors, guides, and investors that enterprises didn't have access to earlier. Whereas, angels get an opportunity to regularly see an investment-ready set of enterprises. The funds in the network also get to build a pipeline for future rounds of investment. Thirty-eight high net-worth individuals and institutions are now members of I^{3}N, including a large number of pioneering organizations such as Toniic, Omidyar Network, Muthoot Pappachan Group and Aavishkaar. Upon identifying the best deals, I^{3}N undertakes field visits with or on behalf of angels in order to validate its research. Then, the screening process usually consists of a first level of conversation with the promoters; followed by an analysis of the business potential and scalability according to six criteria: background and commitment of the promoter, team; uniqueness of the idea or model; the robustness and scalability of the business model; demonstrated proof of concept on the ground; low competition/barriers to entry; impact on the enterprise. If it passes this first step, before showcasing them to members, I^{3}N provides extensive consultations with enterprises to make them investment-ready. Five enterprises who are looking for USD 200.000-USD 250.000 dollars are showcased every quarter to angels in the network to further evaluate for investment. Of this 20 show-cases in a year, usually five or six are eventually able to raise capital. In 201, they showcased 15 enterprises to their members, and an additional 4 in the first quarter of 2013. These enterprises

[9] www.befundindia.com.

are in the education, skills training, healthcare and agriculture sectors. If one or more members of the group show interest, I^3N keeps on being committed to facilitating the entire transaction process; in fact, they are a source of aid for investors as well, in negotiating on the terms, defining the shareholders agreement and fulfilling all due diligence process.

The I^3N model facilitates speedy and low-cost transactions by enabling discussions with the enterprises, standardizing transaction documentation, educating entrepreneurs on the terms of investments and by leveraging various low-cost service providers that it is connected to. Thus, it might be able to unlock domestic capital from angel investors and contribute to the development of impact enterprises in India by addressing the persistent pre-venture capital funding gap for these enterprises.

I^3N made its first investment in August 2012, in Labournet and so far, it has invested in 6 social enterprises among which IKure and Head Held High.

4. **Beyond Microfinance: ACCION VENTURE LAB.**

The ACCION Venture Lab is a department of its mother-organizations ACCION, a big global not for profit organization based in the U.S. started about 40 years ago to operate in the Latin American microfinance sector, investing, managing and advising micro-financial institution.

Recently, ACCION decided to pursue a new thread called *beyond microfinance*. So, it has set up *Accion Venture Labs, which goal is to invest in early stage startups that support financial access to the under-banked population*. The fund is based in U.S. whit a geographic focus on Asia, Africa, and Latin America and they invest in a broad range of financial products. However, one of their prerequisite is that the early stage enterprise must have a disruptive role to play in fostering innovation in the financial space, possibly providing new product or technologies to support financial services, i.e. innovations that improve the reach, cost, or quality of financial services to underserved customers (mobile phone–based financial services; online or social media platforms for enabling financial access; business models built on m-payment platforms; specialized credit assessment or delivery models; online or social media platforms for enabling financial access; pay as you go solar energy or basic services; collaborative consumption). They have dollars allocated to the department by ACCION decide to allocate 10 million from its balance sheet dedicated to venture capital. Their average ticket size is between USD 100.000 - 500.000 in equity or quasi-equity instruments, and they welcome opportunities of co-investing together with other actors. Not having particular return expectations from external investors places ACCION Venture Lab in a unique and favorable position. They target pre-revenues or early stage ventures: ACCION Venture Lab usually comes in as first institutional capital, after the company has raised money from friends and family, and invests in the moment where the enterprise need the capital to validate the concept, to experiment the customer value proposition and the growth model. The targeted enterprises are not necessary lenders but companies offer alternative products, savings, insurances, alternative credit products, peer to peer lending, and savings organizations.

So far, they did seven investments, amount to USD 2 million.

One of ACCION Venture Lab's portfolio company is *Varthana*, a social enterprise provides specialized loans and other support to affordable private schools in India, promoting access to and quality of education for India's poor and emerging middle class.

EARLY STAGE

5. **The Most "Charitable": ACUMEN**

Acumen Fund is a not for profit venture fund that invests patient capital in market-oriented approaches to deliver critical, affordable goods and services to the world's poor. Acumen Fund's approach pivots on the convergence of philanthropic capital and business expertise to produce sustainable, scalable enterprises that reach underserved markets and increase access to the opportunities of the global economy. It is one of the pioneers in the market started by Jacqueline Novogratz twelve years back, in 2001, with a pool of seed capital from the Rockefeller Foundation, Cisco Systems. As of today, Acumen has USD 73 million of approved investments in 65 social enterprises in countries like India, Pakistan, Kenya, Tanzania, Uganda, the United States and the United Kingdom.

Investments made by *Acumen Fund India* in local enterprises include high-quality maternal and pediatric healthcare services; safe water for consumption and livelihood; agriculture; clean energy and the new sector of affordable housing. Acumen Fund India is actively exploring further potential investments in housing and energy services. The Fund raised *philanthropic capital* from high net worth individuals, foundations and corporations which allow it to make loans or equity investments in mission-driven enterprise and it reinvests its financial returns into new investments. They seek for investments in the range of USD 250.000– USD 3 million. The targeted stage is what they call, in their well know report, *From Blueprint to Scale*, edited in partnership with Monitor Inclusive Markets, the validate stage of the enterprises' lifecycle, i.e. when the entrepreneur has already proved the business plan, launched the product or services, get the people used to that, but it is still not profitable. In identifying their potential investee enterprises, they follow a set of criteria: geography, sectors, stage, investment size, strong management team, potential for significant social impact, potential for financial sustainability, potential to achieve scale. Potential investments are identified through business plan submissions, referrals, or proactive research by the each sector Portfolio team members. Moreover, Acumen encourages interested parties to submit their business plan to the fund and it provides resources online to support applicants with this process. The investment process starts with what they called, Initial Due Diligence: they try to just figure out the purposes, the vision and then try to understand what the enterprise has already achieved doing field research, speaking with the few clients, government contracts, reference checks. For those investments that pass the initial deliberation stage, the team conducts a rigorous Formal Due Diligence process which entails a review of the promoter/enterprise in the general areas of social impact, financial viability, operations, management, accounting and legal compliance. Theh, they put together an investment memorandum for the Investment Committee, which is ultimately responsible for approval or rejection of the investment opportunities company is really serving low income people, causing a significant impact. The last step is obviously a period of negotiation leading to the term ship and shareholders agreements. Acumen cares a lot about the impact assessment of the investee company: it does monthly-based measurement where investors must submitted impact and financial metrics and it has developed a specific tool, the PULSE system, designed to catch all this data.

It also strongly functions as ecosystem builder. Firstly, Acumen Fund is characterized by a close relationship with several academic institutions, which at the base of its commitment in the development of leadership through three *fellowship programs* which are full-time one-year leadership development courses. One is the *Global Fellows Program*, which has candidates from all over the world; whereas the *East-Africa Fellows Program* is specific to the East African region, and the *Pakistan Fellows Program* focuses on this single geographic region. Further, the authors and share online knowledge documents related to the impact investing sector and also provides a platform for self -organized, volunteer led groups of people interested in social entrepreneurship through its +Acumen Chapters.

One of the many investments Acumen has done is *Edubridge*, an enterprise providing training and formal sector jobs for youth in rural India.

6. **The "domestic" Grandfather: AAVISHKAR**

Aavishkaar is a Mumbai based investment fund that makes equity investments in enterprises that focus on the lower end of the economic spectrum from a variety of sectors including Agriculture and Dairy, Healthcare, Water and Sanitation, Technology for Development, Education, Energy and Financial Inclusion. Aavishkar investment philosophy is identifying early stage entrepreneur in difficult geographies and investing equity capital to enable them to grow their businesses and support them in their growth. Aavishkaar can be considered a pioneer in early stage investing in India, being one of the first to adopt the venture capital methodology to serve the low-income market segment by creating scalable enterprises. *It has been active in the space for over a decade, since 2001, insomuch as it can be considered representative of domestic capital, even if technically it is not*. It has made over 45 investments since now. They build their pipeline and choosing their investees following these criteria:

- *Is the company either increasing livelihoods or reducing vulnerabilities for the population that are serving?*
- *Has the company an inclusive business model and a strategy to scale?*
- *And largely on the background of the promoter his background, his capability, his understanding of the business, his ability to bring senior management and grow the business*.

They are focused on early stage- and sometimes pre-revenue companies.

Its *Limited Partners* are DFI (IFC, CDC, FMO…), pension funds, corporate, local institution, Indian domestic banking. For example, investors in Aavishkaar's funds include CDC, the UK's Development Finance Institution (DFI) wholly owned by the UK Government's Department for International Development, Deutsche Bank, FMO the entrepreneurial and International development bank of Netherlands, the International Finance Corporation is a private sector arm of the World Bank Group, and KfW Bankengruppe from Germany.

Its investment model involved a disproportionately high risk leading to be the first investor in the majority of its portfolio companies; and hands-on approach based on strong on-ground presence. Their ultimate goal is to help evolve commercially viable businesses and strong entrepreneurial track records that are able to draw more capital from other investors.

Aaviskhar is structured in four funds raised a total capital of USD 155 million, each one with slightly different focus.

Aavishkaar India Micro Venture Capital Fund

Aavishkaar I was created in 2002 to promote inclusive development in rural and semi-urban regions in India. The fund's mission was based on the premise that promising MSMEs will help drive positive changes in underserved regions of the country. This fund enabled Aavishkaar to demonstrate that the venture capital approach to achieve dual returns works. Not only the fund has seen exits, but a number of portfolio companies have gone on to become some of India's most spoken about and innovative companies, scaled up and the 65% of them raised multiple rounds of capital. The 23 investee firms of AIMVCF have a presence in 22 States, including all 7 low income states.

Aavishkaar Goodwell India Microfinance Development Company – I

Aavishkaar Goodwell I was incorporated in Mauritius in December 2006 and achieved its final closing in May 2008. Aavishkaar Goodwell I provides equity capital and active support to microfinance start-ups and MFIs that are in the transformation or growth stage. The objective of Aavishkaar Goodwell I is to maximize value by focusing on scalability, efficiency and leverage, and by applying a rigorous private equity approach within a mission-driven setting. The fund is fully deployed in seven MFIs across India, and has already achieved two partial exits.

Aavishkaar India II Company Private Limited

Aavishkaar II aims to build on the experience and track record of its predecessor, the Aavishkaar I fund and will make equity investments in enterprises offering products and services in areas such as healthcare, water and sanitation, education, renewable energy and agriculture, with a significant proportion of these investments being in low-income states.

Aavishkaar Goodwell India Microfinance Development Company – II

Aavishkaar Goodwell II is the follow-on fund of Aavishkaar Goodwell I and was also established with the aim of investing in enterprises active in the microfinance sector on a socially and commercially sustainable basis. Aavishkaar Goodwell II is currently actively investing with a broader mandate of financial inclusion and exploring opportunities in sectors such as micro-insurance, micro-pension, banking correspondent models and financial technology, in addition to vanilla microfinance.

Along with the provision of risk capital, Aavishkaar believes in promoting participative business practices, introducing efficiency, sound governance and empowerment by creating widespread ownership.

Aavishkaar reports to have impact 11.1 million beneficiaries and creating 15,916 jobs in 2013 investing:

- USD 4,1 million in 3 enterprises in Agriculture and Diary sector;
- USD 2.2 million in 2 enterprises in Education;

- USD 3.3 million in 2 enterprises in Energy;
- USD 3.1 million in 3 enterprises in healthcare;
- USD 12.3 million in 5 enterprises in Technology for development;
- USD 26.8 million in 9 enterprises in Financial Inclusion.

Aavishkaar's innovative approach was also recently acknowledged by the G20 SME Finance Challenge Award 2010.

GROWTH STAGE

7. **A Commercial approach and return: ASPADA ADVISORS**

Aspada Advisors provides investment advice and portfolio oversight to two funds. One is SONG Fund; SONG is an acronym that stands for *George Soros*, the funders of the Soros Economic Development Fund, *Omidyar Network* and *Google*. The other one is *Aspada Investments*, an equity and structured product venture capital investment vehicle backed by a USD 10 million commitment by the Soros Economic Development Fund. The former made *four investments: two in health care; one in education and one in the agriculture supply chain*. Whereas, the second *has made one investment in the agriculture supply chain and they are in the process to close two more investment one in skill training and one in financial inclusion*. They specifically focus on enterprises working on providing *basic infrastructure or basic utilities* usually taken for granted in developed economies. They invest typically around USD 2 million. This particular target forced them to avoid seed start-up, business plan or incubation. For the same reasons, they look for teams with experiences that has already built the model, prototyping seriously and need a larger capital to continue to grow. *The business model they look for must possess considerable scope to offer products and services to low income segments; open or increase market access for underserved communities; provide employment opportunities at scale to this constituency; or improve public infrastructure in ways that avoid community deterioration*. *They will support blended models that focus on both middle/upper income as well as lower income customers as long as providing for the latter is the core of the model*. Geographically, they are focused just on India. From a financial point of view, they expected a commercial venture capital returns of about 25%.

Their investment process pivots around the building of sector maps, i.e. they split the sectors into sub sectors, and it usually takes from six to nine months.

Since now, SONG Fund has invested USD 6 million of the raised USD 17 million. It invested USD 4 million in K-12 Techno Services and Eye Q Vision. *K-12 Techno Services* is a school management company which runs Gowtham Educational Institutions in Andhra Pradesh; and *Eye Q Vision* is in an affordable eye-care hospital chain based in Gurgaon, which operates eight eye care hospitals on a hub and spoke model across Haryana, Delhi, Uttaranchal and Uttar Pradesh. The investment’s scope was to realize the plan to expand its network to another 20 towns in the next 2-3 years.

8. **The Impact First VC: LGTVP Venture Philanthropy**

LGT Venture Philanthropy has been set up in 2008 as an investment fund part of the The Liechtenstein Global Trust (LGT). They started to work in India in a close partnership with the Indian accelerator called DASRA. The fund began from the philanthropic engagement of the Princely House of Liechtenstein/LGT Group who looked for an organization which would be able to bring venture capital principles to philanthropy. Yet it is the main source of capital together with others high net worth individuals in Europe. Now, they have teams working across five continents (India, Africa, Europe, Latin America and South-East Asia) with a local investment managers in each geography. The overall ideology consists in finding organizations which create a social or environmental impact, have a good management team, and has a proven product or service, at least passed the pilot phase, as well as a scalable solution. They made investments in both equity and grants to NPOs. Per organization, LGT Venture Philanthropy invests or donates between USD 200.000 and USD 10 million with time of engagement ranges from three to seven years. So far, they have invested USD 18 million. They don't have a precise target IRR, but they asked for some return since they are considered as a mean to encourage the investee to be sustainable in the long term. The investment process is very linear and precise: they started sourcing and screening organizations that fit with the philanthropist's goals, then perform due diligence on potential engagements applying state-of-the-art management practices and after the execution of the deal they do an on ongoing monitoring and support of the organization.

In addition to its core competence of investing, LGT Venture Philanthropy offers its global team and field experience to professionally support individuals and institutions in creating a positive impact. We can say that they provide two other kinds of capital, beyond the financial one, to portfolio's organizations: *intellectual capital* through close mentoring and the ICats Program; and *social capital* by giving organizations access to relevant networks. The ICats *program connects social organizations in need of professional know-how and experts with the desire to apply their knowledge in a meaningful way, thus acting as "Impact Catalysts"*.

Their portfolio is formed by 30 organizations, 8 of these investments are in Indian growth stage social enterprises. LGTVP have made an investment in **Husky Power Systems**, an enterprise which brings electricity to rural areas in North India that lack access to power and one of the most globally quoted examples of successful social enterprise. Moreover, as of 2014, they plan to do 10 more investments globally and 3 in India.

Challenges and Improvements in Indian Impact Investing Landscape

The following trends emerged from investors' answers to the questions:

What are the structures missing in the system to ensure that Impact Investing makes a breakthrough in the Indian market? What do you consider the most critical challenges to the growth of impact investing industry today?

We suggest that, apart from giving important insights about the Indian market itself, they might be paradigmatic of the global industry and might help to point out many further initiatives that the players of the space should undertake.

I. **Access to information**

Accessing to fair and clear information seems to be a key challenge. First, there is not much transparency in the space about what impact investing is and what differentiate impact investors from traditional ones. The first step is educating all the players about the features of this still emerging practice, starting from a universal recognized definition. This is even more urgent if we think about one of the core characteristics of impact investing, i.e. its heterogeneity, which at the extreme might turn into confusion. There is a broad spectrum of impact investors, each one with its mandate, its criteria, its expectations and its ideal type of enterprise; moreover, investors' expectations and their risk appetites differ at the various evolution stages of an enterprise's lifecycle. *Since, alignment and matching between investors and social enterprises appear to be essential components to make an impact investment succeed, in order to achieve that, we need more "informed" enterprises.*

Capital is out there, but it is very fragmented and difficult to access. Understanding the unique characteristics of social investors is critical for social entrepreneurs to attract the investment they need to set up their venture and begin to realize the commercial success that will bring about positive social change. By recognizing the prerequisites they need to possess and emphasize, social entrepreneurs will be able to better tailor investment pitches in order to access adequate financing.

Obviously this is a sort of *policy or systemic duty*: there is the need of much more incubators, accelerators and free fellowship programs that help the entrepreneurs, especially those grassroots, to evaluate impact investors and being very wise in picking up the right one. It is important to teach to enterprises how to choose among thousands of possibilities and understanding what is the perfect funding model for them; and, to investor to ask the right questions. In this way, entrepreneurs would struggle less in the searching process; this, as well as the due diligence and negotiation process, would take less time reducing the painful period when the enterprise is still looking for funds, but it must be able to pay for operational costs. In particular, the supporting services that would make social enterprises able to deal with impact investors in a dialogue between equals are: *financial advisory* in understanding what is the right type of capital they need in a specific stage of this life and assessing the feasibility of their business model; and *services improving their communication and pitching skills*, and this is especially true for grassroots investors, those who struggle the most but at the same time are the most suitable in having the greatest impact.

The second key obstacle is the *lack of successful stories*. We don't mean reliable data on the impact performance of investments from publicly available sources or third parties because we are aware that it is still a tricky field. Indeed, even if something has happened, it will take a lot of time to fulfill this goal. Anyway, a part from measure and metrics, there are a lot of stories of social enterprises which have been able to scale up and amazingly impact on BoP people, sometimes after gained money from an impact investors. However, they are quite unknown to the mainstream or even specialistic world; although this sector has evolved, success stories usually do not receive much attention or publicity. There is the need of more platforms where sharing and shedding the light on such stories (a brilliant example is the *media platform for entrepreneurs YourStory* which has created a "social" branch available at http://social.yourstory.com/). It will increase the awareness and knowledge of entrepreneurs and investors, both social and traditional. *Moreover, third-party provided portal might favour collaboration opportunities for those active in this ecosystem*. Just in this way, it will be possible to increase the credibility of the industry in order to attract mainstream investors as well as inspire new potential social entrepreneurs.

The government has already taken some steps along this way through to the development of an *Indian Innovation Portal*, under the responsibility of the National Innovation Council; this portal highlights resources for the following sectors: health, education, energy, food and agriculture, ICT, science and technology, infrastructure, environment and natural resources and governance. The purpose is building connections between different organizations interested in the "innovation agenda" and providing a solution to the lack of information, exchange and awareness.

The last suggestion is directed to impact investors: they must share due diligence in order to reduce the transaction cost. Indeed, this practice is now quite a burden for both investors and entrepreneurs considering that it requires, from the investors' side, much more practical action compared to traditional one such as visit to remote rural villages, a considerably higher number of meetings with entrepreneurs, dealing with the hard task of measuring impact. On the other hand, entrepreneurs have to deal with many different kinds of expectations and several due diligence methodologies. This is already a common practice in the mainstream sector; and it would be less surprising to see sharing platforms and occasions in the impact space where the common goal is to solve social issues beyond the financial return. It would be of paramount importance to make due diligence less costly and time- consuming allowing a more "on the ground" and "in the field" screening of pipelines. Make templates and findings publicly available might bring a bit more coordination and, thus, less money and time spent on pre-investment processes, lessening the time entrepreneurs have to struggle with paying the bills waiting for the capital.

II. **Gap in the funding curve: seed and mature stage**

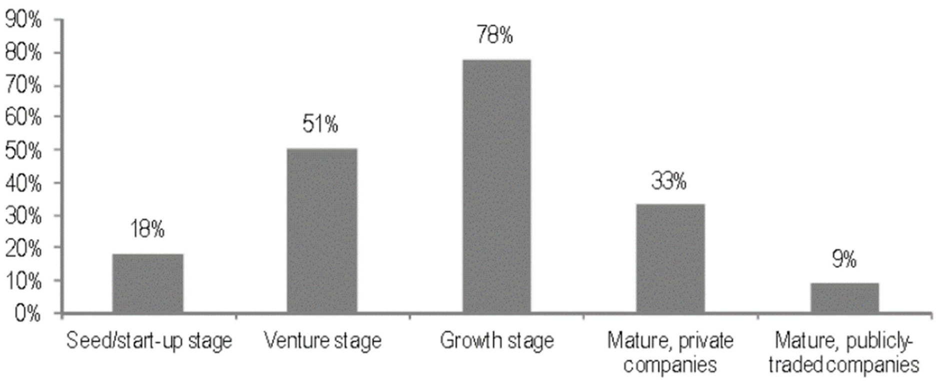

Figure 4: Stage Of Company Development At Which Investors Prefer To Invest.

Source: GIIN, J.P. Morgan (2013), Perspectives on Progress: The Impact Investor Survey.

According to *Beyond Profit* 2012 report, about 68% of impact enterprises have been in existence for 5 years or less; and, on the other hand, Monitor's *From Blueprint to Scale* report makes clear that the bulk of impact investing typically goes to more mature companies. Social enterprises are almost forsaken by investors in the moment between the "3 F's" funding (friends, family and fools) and Series A investment; or when they are a successful scaling stories, maybe profitable, and ready for R&D investments to impact more. Not surprisingly, most impact investing capital appears to be available primarily to scalers—firms operating in sectors that have already been substantially de-risked and which offer the prospect of strong financial and social returns. Seed funding capital is highly required for the initial basic needs such as developing and operationalized the business model, recruit talent management and employees, acquiring retail market connections, marketing support, clients and suppliers scouting. Hence, there is a significant demand for funding between USD 100.000 and USD 500.000 in pre-revenue stage, before proving the pilot, being big and stable enough to scale and ready for impact investor. *However, very few investors are willing to assume the large business model and execution risks that come with such investments.* The overwhelming majority of impact investing funds and advisors expressed a strong preference for investing in the later stage, certainly, after commercial viability had been established and preferably, once market conditions were well prepared for sustainable scaling (Monitor Institute, 2009). In addition, apart from the higher risk characterized this investment, *the cost of hiring a talented team and sourcing, analysing, and supporting deals makes seed funding prohibitively expensive*; few impact investors seem prepared to provide money and technical assistance in these earlier stages. *This resulting in a huge lack of capital to build social businesses' investment readiness and turnsing to be a constraining factor to the availability of investment opportunities for impact investors.*

This poses the question: how will promising inclusive business models get to these later stages where they become investable without support earlier on in their journey?

Governments and foundations can play a catalytic role in providing seed-stage risk capital for businesses, *thus reducing the risk for more commercially focused impact investors and helping social enterprises to become suitable for them*. Indeed, this might be the fitting point for grants and subsidy, directly infusing capital in the enterprises or through supporting incubators and accelerators. Enterprise philanthropy can play an important role in closing the pioneer gap between Blueprint and Scale, turning the promise of inclusive business impact into reality. The right grant support can help pioneer firms develop, validate and establish new business models, and even build entirely new markets to serve the BoP. Grants represent the ultimate "risk capital" for these businesses because they are not predicated on the likelihood of financial return, and so can tolerate uncertainty around commercial viability.

Existing solutions in providing an effective philanthropic infusion in social enterprises are business plan competitions, fellowship programs, angel investor collaboration, acceleration and incubation programs. Some prominent examples in the Indian landscape are DASRA Social Impact, Village Capital Programs, VILLGRO Fellowship, Artha Venture Challenge.

An article from Dell Foundation introduces the concept of the *"additionality" or "incrementality" factor*[10] to highlights few functions of impact investment in a mature stage:

[10] http://www.msdf.org/blog/2013/09/impact-investing-and-good-cause-the-case-for-scale/ accessed on February 21st 2014.

– *penetration into new sectors:* it means involves exporting proven solutions into new environments, for instance from rural to urban environments*.*

– *design and standardization of customer-centric practices:* this means allowing them to invest in understanding customer behavior, so they could design, deliver and encourage the adoption of needed products*.*

– *outreach to poorer customer segments and support for lower pricing.*

Neverthless, in the consolidation stage of the enterprises (once they have matured significantly and have demonstrated a sufficient track record, proof of business models and scalability) there might be the space for mainstream investors as well. At this stage of investing, socents will have reached sufficient scale to make institutional investment worthwhile. Gaining the mainstream investors' interest and collaboration in tapping mature stage gap would mean to reach the most efficient and effective arrangement. However, for the moment this is just a dream.

III. **Shortage of attractive and scalable investment opportunities**

Many authors (Huppé, Silva 2013; J.P. Morgan, 2013) report a shortage of deals that meet the investors' required rate of return. They talked about a "market gap" between the supply of capital that may be readily invested in impact and the availability of investment opportunities that meet the criteria for investment. *A lot of investors complain a lack of sufficient absorptive capacity for capital, meaning that there are still too few investment-ready projects and enterprises to enable the optimum placement of this new capital*.

Even the Planning Commission of India noticed that "*social impact investing does see substantial inflow of new ideas, but quality and scalable models that capital providers find attractive are limited*". This concerning trend is proven by the reported (Monitor Group, 2012) huge *screening process gap*: out of 5,000 companies considered for investment in the past 10 years, Acumen Fund invested in only 65 the screening process.

In India, as well as in other emerging market, the problem is even worse because the space is populated by grassroots passionate entrepreneurs, on one side, and by what we can call "English good speaking" entrepreneurs, on the other side. The latest are people who return from abroad after studying in important foreign business schools and want to do something impactful. They usually have the required skills by investors. However, the former are more "on the ground" and potentially they might have a greater impact, but they don't have the necessary expertise.

A lot of social enterprises are struggling to translate their vision into a strategy, defining a business plan that can be communicated to the funders. On the other hand, the problem of the funders is that they can accept some trade-off, be accommodating and help the entrepreneurs; anyway, they cannot invest in something that they don't know clearly what it is.

It means that the industry players must be able to find the capital to support the enabling structure as well, otherwise they would stuck in a sort of vice cycle.

A first answer has been given by the April 2012 Monitor report *From Blueprint to Scale: The Case for Philanthropy in Impact Investing* describing the *practice of giving grants to for-profit organizations as a classic approach for building the pipeline of inclusive businesses in challenging markets*. They can play an important role in enabling impact investing – for instance, through incubating business models, providing certain forms of credit enhancement, providing technical assistance, or funding needed research and development.

While there has been a growth in the number of incubators in India in the last 18-24 months, additional numbers are required to help create strong business models around entrepreneurial ideas and facilitate investor-investee matchmaking.

IV. **Unlocking domestic capital**

We have already noticed that more than 90% impact capital in India is foreign. There are many funds managed by local teams which, though, source money abroad. Luckily, there has been a change in the last four years, especially in India, where domestic investors have seen the opportunities of investing in their own country. After the flowing of capital caused by the IT boom and the economic growth, some Indians had started to deploy philanthropic capital to solve their own country issues and find a way to give back to the society. However, this is a recent trend and, thus, Indian philanthropy has not developed yet to consider impact investing as a valuable way to contribute. *However, now, it is the moment for domestic investor really to step up in India.* The increasing interactions between impact investors and domestic donors is due mainly thanks to the local angel networks. The advantages for an Indian social enterprises in being funded by a domestic donor are undeniable in terms of understanding the addressed problems, the local context and habits, the domain; researching on the field; and working on the ground with the investee companies. Domestic investors are more familiar with local conditions and are therefore able to assess the underlying risks in a better way. Obviously, if a social enterprise is funded by local capital, there is a better sensitivity to the ecosystem in which the enterprise exists.

Domestic investors that have already shown interest in impact investing include some early stage funds such as Unilazer Ventures Pvt. Ltd set up by UTV group founder Ronnie Screwvala, family offices of wealthy individuals such as Vallabh Bhanshali, chairman of Enam Financial Consultants Pvt. Ltd, and corporate groups like the Wadia group. Another concrete step in this direction has been the approval to start investment activities the Securities and Exchange Board of India (SEBI) has given to Unitus Seed Fund India. This marks the first time that Indian national investors have access to a local seed-stage impact fund. USFI already has INR 20 crore (USD 3.3 million) of committed capital and plans to raise up to a total of INR 50-75 crore (USD 9-12 million) from Indian investors.

V. **Lack of debt funding**

Another huge gap after seed-mature funding and local funding, is the lack in the availability of debt funding. The regulatory procedure set by the Reserve Bank of India makes very difficult for foreign investors to give loan to local companies. The no-availability of debt mechanism might become another obstacle prevented social enterprises to scale. Indeed, there is a certain moment in the social enterprise’s lifecycle, i.e. the pre-venture phase, after grants before the equity investment-ready moment, where it needs a level of debt. This is even truer if you consider that we are talking about a start-up operating in difficult sectors: a category usually excluded by traditional banks. For a social enterprise is quite impossible to meet the cumbersome banks' requirement of three years of consecutive profitability and audited financials or similar restrictive conditions frequently asking for by other lenders. Secondly, where a lender was willing to provide financing, the time from first application to disbursement was often prohibitively slow. Furthermore, most formal lenders use a traditional collateral-based lending approach. Even other financial institutions capable of lending to small businesses were often slow and complicated to deal with or imposed other restrictive conditions that made it difficult for time-constrained entrepreneurs to secure loans when they were needed.

In front of the lack of other feasible options, some enterprise are forced to use equity when it is not the right solution: in doing this, they are diluting the enterprise just for access to cash. Thus, small and growing enterprises had to resort to using limited and expensive equity financing to meet their debt financing needs: an inefficient and insufficient solution.

An attempt to fill up this gap has been the establishment of *IntelleGrow*, an Indian innovative provider of debt finance and skills support to small and growing impact enterprises. IntelleGrow's model enables impact enterprises to easily access loans through a viability-based approach to lending that allows fully customizable loans and faster loan processing times. As a result, it takes IntelleGrow an average of four weeks to undertake an initial screening and due diligence and issue credit committee approvals (provide a yes/no answer) and an additional two weeks to disburse the loan, thus delivering loans approximately 6 months faster than other formal lenders. Through its viability-based approach, *IntelleGrow* is able to tailor the structure of its loans to suit the cash flows of borrowers, to preserve a certain level of flexibility and enhance the enterprises' ability to meet customer demand. These loan structures thus help to support the enterprises' growth trajectory and expansion plans. By servicing their loans (many of which represent the first time the enterprise has ever borrowed), these enterprises are also able to build their credit history and lay the foundation for other financial institutions and investors to fund the company to scale over the loan term.

VI. **More risk-appetite and patience from investors**

Investors have to be patient and fast: social enterprises usually take three or five more years to exit than traditional companies, as well as they need more time passing from seed to become ready to scale. At the same time, they need more speed in having the due diligence and investment process completed.

In addition, impact investors appear to be much more *risk-averse* than, for example, traditional Silicon Valley investors. As already underlined, they are willing to invest just in proven, and therefore not always completely new and innovative, business models. Impact investments seem to follow the common mentality, namely too much capital in few well-known and world famous business models. Consequently, it might bring over time to lots of copy-paste in social entrepreneurship closing down the inherent innovation feature of the sector. Impact investors should take risk with multiple and innovative models.

CONCLUSIONS

The entire research has been backed by the question about the *impact investing's real ability in supporting the development of social enterprises*. The analysis of the peculiar characteristics of the Indian landscape has helped in investigating to solve this interrogative. Given the recent happenings, India might be a fertile ground for this couple during the coming years and an example around the world. The Government's initiatives, the growing interest from both local and foreign investors as well as the numbers of enabling actions (fellowship program, awards, competition, meetings…) appear to be a good basis. Just the passing of time will tell us if it was just a lot of talks or if social entrepreneurs, effectively supported by impact investors, will succeed in bringing India far away from poverty or inequality.

In this last part, we can present the main findings.

Firstly, all the above-mentioned research projects about impact investing and social entrepreneurship announce a bright future for these new practices. Of course, they both should be able to overcome the existing barriers: the best way would be effectively work together to achieve a common goal.

They can infer an important advice from the characteristics of the Indian market: the point is *aiming for a close relationship* between the impact investor and its social investees. *Even if the perception of the specificity of impact investors in being something different from the mainstream sector is very small, the most pointed out and appreciated feature of Indian Impact Investors is that they are very active in helping the social entrepreneurs make the thing works.*

What seems, beyond capital, the biggest positive aspect of impact investing's movement is the provision of expertise and the transfer of knowledge and competencies, in terms of finance, management and governance, to social entrepreneurs, coming both from investors and from incubators and accelerators. The provision of a sort of formal or informal support services and the attitude to work hand in hand with the portfolio's social enterprises are embedded in the impact investors' structure and a crucial part of their mandate.

Passion and good ideas are not enough to set up a social enterprise, even in developing countries, where the desired status should be to have local grassroots entrepreneurs from the villages aware of the problems, able to speak with poor local customers, respectful of traditions and habits. This kind of entrepreneurs have disruptive ideas, but also a huge lack of financial and entrepreneurial skills, which makes hard turning the solution into a feasible commercial activity. However, if you decide to address a social issue using a business activity, being sustainable, profitable and scaled is the base.

One of the challenge that entrepreneurs face appears to be embrace the activity of analysis and due diligence comes with the investment process; however, it can turn to be also an educational moment for the entrepreneur. They must prepare an effective business model and established proof of concept, but must also be able to creatively, clearly state what they need from the investor and why; this involves strong communications skills and confidence. Hence, before pitching to an investor, the entrepreneur should invest in oneself as well as in the idea. They are forced to answer investors' question, rethinking about all its model and make clear what are the future plans and achievable goals. Everybody learns in the process, from both the dialogue during the bet and the observation of its result.

In addition, as we stated, social enterprises should be wise and careful in choosing the investor: given the difficulty to recognize the right type of investor in the crowed and nascent space, they struggle a lot in the search. On the other hand, the seeking for the “right man” might increase the companies’ knowledge about the sector, about the whole global market and even more important, another time, about their own structure.

As, the purpose of investors is transforming innovative ideas into a viable business model focusing on both social and commercial aims, they are willing to share through formal or informal channels all their financial and entrepreneurial competencies and their networks.

The relationship with impact investor is a sort of laboratory where social businesses can acquire all the necessary skills and competencies make them prepared and allowing them to reach the right level of scale to attract also commercial and mainstream money. Overcoming the charitable model of grants and subsidies can encourage projects that are more self-sufficient and capable of growing. *The commercial push creating by the impact investing inherent nature is what social enterprises need to foster their sustainability and efficiency ending in a greater impact.*

Thus, Impact Investing is necessary to complement grants and subsidies in covering each moment of the entire funding curve of a social enterprise with the most suitable source of funding. Just at the very initial level, grants and subsidies are a viable solution for social enterprises; then they imperatively need a more commercial approach to ensure their success. However, Impact Investors must customize themselves on the need of social enterprises, forgetting their own benefits for a moment and seeing profits not as an end, but as a mean to force sustainability and a proof of the impact. Be active, be patient, take risks and lower the return expectations are good advices, but not enough.

Generally speaking, I see an opportunity for future research in understanding and drawing a sort of profile of the *“perfect investor”* for different types of social enterprises in each step of their development. In addition, with regard to Impact Investments no much academic research has happened in Indian context, or almost all research works are done by the impact investors themselves or charitable organizations; a comprehensive research project on Indian Impact Investing industry from a third party big institutions, like a university, would be surely welcome.

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