

India Social Enterprise Landscape Report



ADB

Asian Development Bank

India Social Enterprise Landscape Report

© 2012 Asian Development Bank

All rights reserved. Published in 2012.
Printed in the Philippines.

ISBN 978-92-9092-738-9 (Print), 978-92-9092-739-6 (PDF)
Publication Stock No. RPT124787

Cataloging-In-Publication Data

Asian Development Bank.
India social enterprise landscape report.
Mandaluyong City, Philippines: Asian Development Bank, 2012.

1. Social enterprise. 2. India. I. Asian Development Bank.

The views expressed in this publication are those of the authors and do not necessarily reflect the views and policies of the Asian Development Bank (ADB) or its Board of Governors or the governments they represent.

ADB does not guarantee the accuracy of the data included in this publication and accepts no responsibility for any consequence of their use.


By making any designation of or reference to a particular territory or geographic area, or by using the term "country" in this document, ADB does not intend to make any judgments as to the legal or other status of any territory or area.

ADB encourages printing or copying information exclusively for personal and noncommercial use with proper acknowledgment of ADB. Users are restricted from reselling, redistributing, or creating derivative works for commercial purposes without the express, written consent of ADB.

Note:
In this publication, "\$" refers to US dollars.

Asian Development Bank
6 ADB Avenue, Mandaluyong City
1550 Metro Manila, Philippines
Tel + 63 2 632 4444
Fax + 63 2 636 2444
www.adb.org

For orders, please contact:
Department of External Relations
Fax + 63 2 636 2648
adbpub@adb.org

 Printed on recycled paper

Contents



Figures	iv
Abbreviations	v
Acknowledgments	vi
Introduction	1
Research Methodology	2
Country Overview	3
India and Impact Investment	4
India's Social Enterprise Market Landscape	5
Different Types of Social Enterprise Models and How They Raise Funds	6
Role of Government and Policy for Social Enterprises in India	8
Industry Overview: Key Social Enterprise Sectors	9
Affordable Healthcare	9
Affordable Housing	10
Agriculture	12
Education	14
Energy	16
Livelihoods Promotion	18
Water and Sanitation	19
Financial Inclusion	22
Summary and Conclusion	24
Recommendations	25



List of Figures

1	Social enterprise space in India by annual revenue and operational history	5
2	Key sources of finance for social enterprises	6

Abbreviations



ADB	–	Asian Development Bank
IIX	–	Impact Investment Exchange Asia
BPO	–	Business Process Outsourcing
FY	–	Financial Year
GDP	–	Gross Domestic Product
GIAN	–	Grassroots Innovations Augmentation Network
INR	–	Indian Rupee
MSME	–	Micro, Small and Medium Enterprise
NBFC	–	Non-banking Financial Corporation
SE	–	Social Enterprise
SEBI	–	Securities and Exchange Board of India
VCF	–	Venture Capital Fund



Acknowledgments

This report would not have been possible without the patient inputs from the entrepreneurs and managers of social enterprises who were faced with relentless questioning and requests for documentation. A special thank you to those who took time out of their busy schedules to spend days sharing their entrepreneurial journeys with us. In particular, the authors would like to thank Sumita Ghouse from Rangсутra; Suresh Krishna from Grameen Financial Services Private Limited; Professor David Gibbons from Cashpor; Dr. BC Jain from Ankur Scientific; Dr. Ashwin Naik from Vaatsalya; Vijay Mahajan from BASICS Limited; Yogesh Chaudhary from Jaipur Rugs; Srinivas Varma from GramIT; Rajeev Kher from Shramik and Sudesh Menon from Waterlife India Private Limited. Another special thank you to Durreen Shahnaz, Founder and Managing Director of Impact Investment Shujog, for her guidance on this report.

Introduction



Social enterprises (SEs) have the potential to make India's spectacular growth story work better for its poor citizens. Currently, India's rapidly growing economy has not managed to alleviate the extreme poverty of nearly half the country's population that lives below the \$1.25 per day poverty line. There are several reasons for this, including non-uniform infrastructure, low quality public good provision by the government (especially in health and education), and resource limitations. By employing innovative business models, SEs are addressing India's vast development needs, while maintaining sustainability through viable revenue models. Simultaneously, this space is witnessing an increasing number of impact investors who are interested in supporting businesses with triple bottom line returns – that is, profits (or financial sustainability at the least), social impact, and environmental impact.

This report provides a broad overview of the SE landscape in India. It covers different sectors and for each highlights social and environmental needs, how SEs are addressing these needs, key barriers confronting SEs, and different enablers that facilitate the activities of SEs. Key insights from this report follow from the profiling of 120 Indian SEs. The Asian Development Bank (ADB) commissioned this report, which was carried out with the guidance of Durreen Shahnaz, Founder and Managing Director of Impact Investment Shujog (Shujog). The report aims to understand the broad contours of India's SE space, and to gain an understanding of what SEs could potentially be listed on a proposed regional social stock exchange. Such an exchange would allow SEs to efficiently raise capital from investors in a liquid environment for their growth needs. Unlike traditional exchanges, the regional stock exchange would consider *both* social and environmental impact, as well as profitability factors.

For the purposes of this report, SEs are defined as organizations that have triple bottom line returns: namely they address social and environmental needs such as affordable health services and energy, and have a financially sustainable revenue model (or plan to become sustainable in the near future). It is important to note that the definition is not limited by legal structure. SEs may be registered as private limited companies, cooperatives, not-for-profits, trusts or other types of legal entities. However, the legal structure of an SE may have a bearing on the type of funds they can attract. Not-for-profits, for instance, cannot solicit equity investments, but can have access to debt capital.



Research Methodology

This report was written based on insights generated through a broad scan of more than 150 SEs in India, and in-depth analysis of ten of these enterprises. In addition, the report has referred to secondary sources to supplement the data available.

Through the broad scan, data from the SEs was collected while ensuring a distribution across sectors: agriculture, education, financial services, health, water, waste management, livelihoods, housing and energy. In addition, an attempt was made to maintain a fair geographical spread. In order to assess relative investment-readiness, the following information was collected for each enterprise: name, age of the enterprise, mission, size, legal structure, whether or not the enterprise has raised capital in the past, the type of funding received (debt, equity or grant), turnover and target segment in terms of geography, demography and socio-economic profile.

Using the data collected, 25 SEs were shortlisted for further research, based on the strength of their mission, track record of success, turnover of at least \$5 million and their stated interest in raising capital. For each of these enterprises, a more detailed review of available secondary information was conducted, entrepreneurs were interviewed, and their investors or bankers consulted on their business and impact potential and level of investment-readiness.

Finally, ten SEs were selected for detailed due diligence in order to assess investment readiness. The due diligence process included spending two days with each entrepreneur and enterprise senior management in order to better understand the business model, the social impact it creates, the management team and governance of the enterprise, financial performance of the last few years, and future growth projections.

The set of SEs for which data was collected was passed through a number of filters to ensure sectoral and geographic diversity and a minimum turnover in order to be considered for investment readiness. It should be noted that the sample of 150 SEs was not representative of the entire Indian SE landscape, but rather a sampling of mature enterprises from each sector. Thus, in order to bolster the learning that has emerged from this process of scanning, evaluating and conducting due diligence, data from *Beyond Profit* magazine's 2010 *Social Enterprise Landscape Survey* was also used. The *Beyond Profit* survey sought data from all known SEs in India, and received 120 responses at random, making it a more representative sample of the landscape as a whole.

Country Overview



India is the world's second most populous country in the world, and the fifth largest economy in terms of GDP when adjusting for international price differences. However, its per capita income in 2011 is only \$3,600,¹ placing India 129 out of around 184 countries. Despite this, India's economy grew at a pace of 7.45% between 2000 to 2011,² making it the world's second-fastest growing major economy.

More than three-fifths of India's population lives in rural areas.³ Approximately 53% of the country's total employment is in agriculture,⁴ yet only 19% of India's GDP is created by to this sector. Manufacturing accounts for 26% of India's GDP and the remaining 55% is from services.⁵ Around 41% of India's population lives under the poverty line of \$1.25 per day,⁶ and the adult literacy rate is only 63%.⁷ Average life expectancy is 64 years, and infant mortality is at a very high 50 in 1,000 births.⁸

¹ International Monetary Fund, accessed from imf.org on October 31, 2011.

² Trading Economics, accessed from tradingeconomics.com on October 31, 2011.

³ Census of India, 2011, accessed from censusindia.gov.in on October 31, 2011.

⁴ Asian Development Bank, *Key Indicators for Asia and the Pacific 2011*, 2011.

⁵ Index Mundi, accessed from indexmundi.com on October 31, 2011.

⁶ Asian Development Bank, *Key Indicators for Asia and the Pacific 2011*.

⁷ Asian Development Bank, "Asian Development Bank & India: Fact Sheet," December 31, 2010.

⁸ *Ibid.*



India and Impact Investment

Impact investing in India has roots extending back to 1982, when the Ashoka Foundation provided grants to Indian social entrepreneurs.⁹ However, it was not until recently that India has witnessed an increase in the number and size of investments in businesses with a clear triple bottom line. In 1997, Grassroots Innovations Augmentation Network (GIAN) became India's first non-profit socially minded venture capital fund (VCF), and in 2001 Aavishkaar became the country's first for-profit counterpart. Early growth in the impact investor community was slow; it took Aavishkaar seven years to accumulate \$14 million for its first fund.¹⁰ Since then, the number of players and the size of each fund have increased considerably. Some of the largest actors in the field include the Omidyar Network, Aavishkaar, Acumen Fund, and Elevar Equity.¹¹ Additionally, the Indian Government is considering setting up a VCF of \$200 million.¹²

The recent growth in capital available to SEs indicates that the market is far from saturated. The number of SEs seeking capital at various stages of development is also increasing at a rapid pace. There is great optimism amongst development finance institutions and large private foundations regarding the role of SEs in alleviating global poverty. This enthusiasm stems from the demonstrated success of existing models, and is translating into more equity and debt sources for SEs.

While India is one of the world's most advanced impact investing markets in terms of number and size of investments, it is important to note that the country's impact investment space is still nascent. Very few funds have managed successful exits from their investments. For example, Aavishkaar has only partially exited one of its investments, while Acumen Fund in India has exited only one of its debt-based investments.¹³ However, as business models evolve and mature, this situation is likely to change.

⁹ *Businessworld*, November 22, 2010, "Social Capital."

¹⁰ *Ibid.*

¹¹ *Ibid.*

¹² *Business Standard*, March 7, 2011, "Rs. 1000-cr innovation fund in three months."

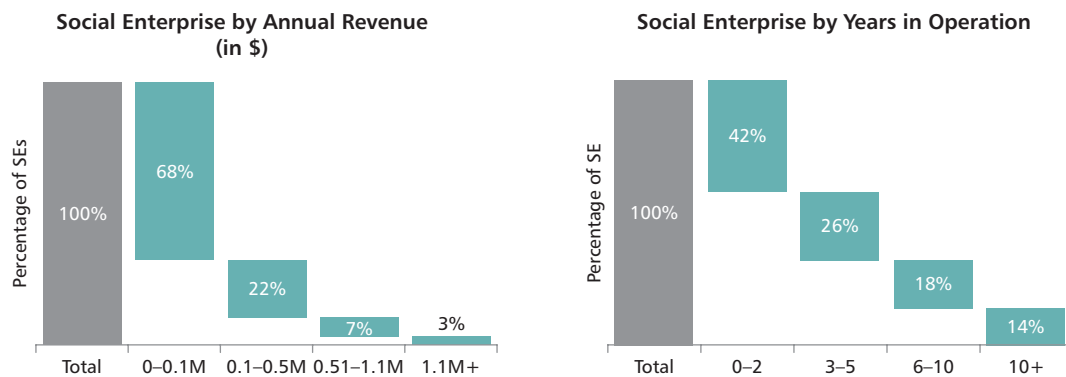
¹³ Acumen Fund, accessed from acumenfund.org on October 31, 2011. Last published exit was in 2007.

India's Social Enterprise Market Landscape

SEs are reaching hitherto underserved markets and are doing so with innovative business models that ensure affordability for the end consumer without eroding sustainability for the enterprise. Key SE sectors include: agriculture, education, energy, financial services, healthcare, housing, sanitation, and water.

India's vibrant SE space is young in terms of years of operation, and nascent in terms of revenue size per enterprise. According to the *Beyond Profit* 2010 survey, about 68% of SEs have been in existence for five years or less.¹⁴ Furthermore, annual revenue for about 90% of SEs is \$500,000 or less (see Figure 1). Given the youth of the space, it is not surprising that one in three SEs experience losses in their current operations.¹⁵ Having said this, SE revenues are growing rapidly; for instance nearly one-third of the enterprises surveyed by *Beyond Profit* grew by over 50% between 2009 and 2010, while only 6% of the surveyed enterprises had negative growths.¹⁶

Figure 1 Social Enterprise Space in India by Annual Revenue and Operational History



Source: *Beyond Profit, Social Enterprise Landscape Survey, 2010.*

¹⁴ *Beyond Profit* (Intellicap) 2010, "Indian Social Enterprise Landscape Survey". Data self-reported by SEs.

¹⁵ *Ibid.*

¹⁶ *Ibid.*

Different Types of Social Enterprise Models and How They Raise Funds

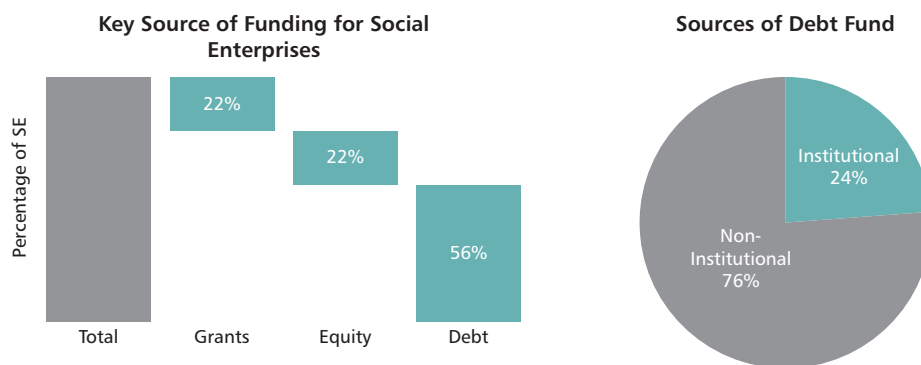
SEs that adopt innovative business models with for-profit entities account for three-fifths of all SEs.¹⁷ For-profit models also include collective ownership structures such as cooperatives and producer companies; Waste Ventures is one such organization that “incubates solid waste management companies owned and operated by waste pickers.”¹⁸

About one-fifth of SEs adopt not-for-profit structures, such as Aravind Eye Care Hospitals, which is registered as a trust, and sustained by charging users for affordable eye care. About 20% of the models can be categorized as hybrid, wherein two or more entities, while not legally bound, work in close synergy with each other, usually because they are both founded by the same individual or individuals. The Cashpor Group, which comprises both for-profit and not-for-profit entities, is a prime example of this.

A growing trend observed in the Indian SE space is the transformation of many not-for-profit models into for-profit models, as these are in a better position to secure financing and scale over time. This was especially true of non-profits in microfinance, where the revenue model was clear early on. Many leading microfinance institutions (MFIs), such as SKS and Spandana, were registered initially as non-profits and subsequently transformed into for-profit companies.

An initial assessment of the SE financing landscape indicates that the key sources of capital for SEs are non-institutional debt, equity (mostly self-finance), institutional debt, and grants (see Figure 2). The key sources of equity in the SE space are early stage impact investors or entrepreneurs’ capital (both equity and debt). Traditional private equity investments in SEs are rare, and are largely limited to the more developed sectors such as microfinance, health, and agribusiness. This is primarily due to the fact that the markets are developing, business models are just starting to show proof of concept, transaction costs are high for investors, and there is limited data available to help understand the space.

Figure 2 Key Sources of Finance for Social Enterprises



Source: *Beyond Profit, Social Enterprise Landscape Survey, 2010.*

¹⁷ *Ibid.*

¹⁸ Accessed from www.wasteventures.org on 27 October, 2011.

Although debt is a major source of capital for many SEs, access to institutional debt (such as bank loans) is limited. With improving access to equity financing, access to institutional debt is also expected to improve over the next few years.

In order to sustain their growth, SEs need to access mainstream capital. Investor interest is gradually increasing as early investors are starting to see returns, and high growth is seen across sectors. SEs that are successful both from profitability and impact points of view now exist across key sectors. Examples are presented in this report.



Role of Government and Policy for Social Enterprises in India

There is increasing recognition within India's central and state governments about the usefulness of engaging or facilitating the private sector to address some of the country's pressing developmental needs, although the specific nomenclature of "social enterprises" is not often used. The Government has been involved in three main categories: Micro, Small, and Medium Enterprises (MSMEs)¹⁹ engagement, government-backed venture capital funds, and policy formulation.

First, the government has initiated various public-private partnerships in key development sectors, such as health. For example, many state governments have invited private sector players to provide emergency health care services in urban areas. MSMEs have been identified as a priority lending sector. This increases the availability of capital through government provisioning of grants, equity, and subsidized loans for companies in this category. This clustering includes all enterprises with an initial outlay below \$2 million. Since almost all for-profit SEs fall into this category, they will benefit from this policy. Recently, the Prime Minister of India also commissioned a special task force to provide a set of recommendations on further developing India's MSMEs. The task force recommended that the government should spend around \$1.1 billion over the next 3 to 5 years on augmenting infrastructure and technological support for MSMEs; of these funds, around 20% should be earmarked for incubation centers within reputable educational institutions.

Secondly, the National Innovation Council, set up by the Prime Minister in 2010 to catalyze innovation in India, is considering establishment of a government-backed venture capital fund. The size of this fund will be in the ballpark of \$200 million.²⁰ The primary focus of this fund would be to address developmental needs in education, health, infrastructure, and sanitation.²¹

Thirdly, the government is involved in formulating and changing policies and regulations that can affect the SE space. Most recently, the Securities and Exchange Board of India (SEBI), the country's financial market regulator, floated a policy paper suggesting the need to separately recognize and regulate "Social Venture Funds". It outlined that these funds are for investors seeking "muted" returns in their investments in return for social gains. SEBI sought public comments on its note and the final recommendations are yet to be finalized.

¹⁹ Enterprises are categorized into Micro, Small, and Medium based on their initial capital outlay. For example, in the manufacturing sector, an enterprise with an initial outlay up to \$50,000 is a micro enterprise; an enterprise with an initial outlay of \$50,000 to 1 million is a small enterprise; and an enterprise with an initial outlay of \$1 to 2 million is a medium enterprise.

²⁰ *Business Standard*, March 7, 2011, "Rs. 1000-cr innovation fund in three months".

²¹ *Ibid.*



Industry Overview: Key Social Enterprise Sectors

Affordable Healthcare

Overview and Need Assessment

Poor households in India spend approximately \$6.2 billion annually on healthcare services; in-patient care and pharmacy drugs account for 30% and 33% of the total healthcare expenditure, respectively.²² The primary reason for such high expenditure by the poor is inadequate public healthcare infrastructure and poor access to existing facilities. Given the potential demand, there is an immense need for healthcare enterprises that provide affordable and quality primary, secondary, and tertiary medical services.

SE Involvement in the Sector

The affordable healthcare sector in India is still nascent. The average size of enterprises by revenue is approximately \$1.1–\$2.2 million.²³ In order to address the market need, affordable healthcare providers use innovative operating models such as leased premises and hub-and-spoke setups in order to minimize the cost of service delivery across primary, secondary, and tertiary care. In the past, affordable healthcare initiatives were largely structured as charitable institutions run by large industrial houses or government operated institutions. With the recent wave of entrepreneurial activity in affordable healthcare, most new initiatives are structured as for-profit enterprises.

Case Study: Vaatsalya Healthcare

The poor in tier two and three cities in India have limited access to healthcare services, as primary and secondary healthcare infrastructure is inadequate and tertiary healthcare infrastructure is largely concentrated in metropolitan areas or larger cities. Vaatsalya addresses this gap in primary and secondary healthcare infrastructure by offering high quality, no-frills, affordable primary and secondary healthcare services. Vaatsalya currently operates across 13 tier-two and -three cities in South India, such as Mysore, Simoha, and Ongole.

Year of Inception: 2005

Legal Structure: Private Limited Company

Founders: Dr. Aswhin Naik, Dr. Veerendra Hiremath, V. Renganathan, Rocky Philip, Bheemanna Ganti

Turnover: \$2.97 million (FY 2010)

Geography: Hubli, Gadag, Bijapur, Mandya, Hassan, Mysore, Gulbarga, Shimoga

Impact: 150,000 patients per annum

continued on next page

²² Estimated based on Morbidity, Healthcare, and Condition of the Aged survey conducted by NSSO in 2004.

²³ Intellectap analysis.

Box *continued*

The Vaatsalya model minimizes capital and operational expenditure while maintaining high capacity utilization. To keep capital outlays low, Vaatsalya leases and refurbishes existing maternity homes and leverages the existing clinical staff where appropriate. Furthermore, the service offerings of Vaatsalya are tailored to cover about 70% of the healthcare needs of the community in which it operates. In addition to healthcare specialization, Vaatsalya also offers 24-hour in-house pharmacy and diagnostic center services.

Vaatsalya has undergone formidable growth since inception and is expected to breakeven over the next three years. Vaatsalya has raised equity and debt capital from organizations like Aavishkaar India Micro Venture Capital Fund, Oasis Fund, and Seedfund. Vaatsalya aims to establish 45 hospitals in South and South West India benefiting 4–5 million people over the next three years.

Impact: Vaatsalya’s patients are primarily those with an annual household income of \$155 to 333; over 150,000 patients avail services at Vaatsalya annually.

Because affordable healthcare initiatives are young and utilize innovative operating models, many have yet to prove their financial viability. The flow of equity capital has thus been limited to micro-venture capital, with few private equity transactions. The flow of equity to the sector is approximately \$118 million with an average deal size of less than \$5 million.²⁴ However, the flow of equity capital to enterprises in affordable healthcare is expected to increase over the next few years as the sector is exhibiting immense growth and first movers are expected to breakeven in the near future. Given the untapped market potential in tier-two and -three cities, the affordable healthcare market is expected to grow rapidly over the next few years.

Policy Enablers and Barriers

The Government generally encourages enterprises in affordable healthcare. For instance, publicly funded healthcare micro-insurance initiatives, such as Rashtriya Swasthya and Bima Yojana, create an incentive for enterprises to deliver healthcare to the poor. However, licensing requirements for all hospitals are cumbersome; hospitals require about 18 licenses prior to commencing operations.

Affordable Housing

Overview and Need Assessment

The formal real estate and housing finance markets traditionally cater to middle and high-income customers, while the government is generally expected to serve the housing needs of the poor. Despite several government initiatives, there exists a huge gap in the supply of affordable housing. The gap in the urban housing market is estimated at 25 million units, virtually all of which is accounted for by the working poor.²⁵ The estimated gap in the urban housing translates into a market potential of approximately \$280 billion.²⁶

²⁴ VCC Edge data, available at vccedge.com.

²⁵ *Monitor Inclusive Markets*, 2010, “Building Houses, Financing Homes”.

²⁶ *Ibid.*

SE Involvement in the Housing Sector

Given the initial success of housing for low income populations and the potential demand, the market witnessed the entry of specialized enterprises that focused on affordable housing projects and affordable housing finance.

Today, India has more than 25 developers involved in affordable housing projects that offer apartments in the price range of \$6,600–\$15,500.²⁷ In affordable housing projects, developers create economic value by minimizing construction cost and time to completion through integrative technical solutions and process innovations. Despite the immense potential demand, the key challenge in developing affordable projects is the unavailability of land close to business districts. The location of an affordable project has an impact on the uptake of housing units, which consequently affects the financial viability of the project.

Similar to traditional real estate projects, affordable housing projects are funded through a combination of equity, debt, and pre-construction finance by potential buyers. Although the flow of equity to the sector is gradually increasing, debt continues to be a key source of finance for housing projects.

The other key stakeholders in the affordable housing space are the micro-housing finance companies that address the consumer finance needs. The key challenges to serving the micro-housing finance market are lack of consumer credit history and absence of asset collateral. Housing finance companies mitigate the credit risk through stringent project screening and collateralizing the purchased housing unit.

Company Profiles in the Housing Sector^a

Company	Description/Mission	Activity	Legal Structure	Financials
Micro-housing Finance Corporation	“Address the development of low income housing due to lack of finance, by providing housing finance for lower income households (mostly in the informal sector) in urban India.”	400 loans disbursed amounting to INR 160 million	Private Ltd.	Profits after tax for FY 2009: INR 7.6 million (\$159,580)
Gruh Finance	“Partnering with families in building their homes. Endeavours to develop products and services to help meet housing needs and structure suitable financial plans.”	Loan amount disbursed: INR 24 billion	Public Company	Profits after tax for FY 2009: INR 502 million (\$10,540,700)
Aarusha Housing Private Ltd.	“Providing housing rental solutions for low to lower middle income migrant population to cities in the price range of INR 2000 to 5000 per month (including 3 meals a day).”	600 units/month	Private Ltd.	Annual turnover for FY 2009: INR 15 million (\$314,961)
Value Budget Housing Company	“Addressing the need of low cost housing by engaging in the planning, design, and construction of budget homes in India.”	1 housing project in Bangalore with development of 1.1 million sq. ft.	Private Ltd.	Profits after tax for FY 2009: INR 4.7 million (\$98,687.7)

^a Intellect primary researches from company websites, documents and interviews. Excerpts in quotes are directly from sources; however they have been edited to ensure consistency.

²⁷ *Ibid.*

Policy Enablers and Barriers

In order to address the gap in housing supply, the government has instituted various incentive schemes like slum re-development initiatives that attract private capital. However, in order to make affordable housing projects financially attractive, the government will need to provide additional benefits such as tax incentives for developers. The housing finance companies are structured as Non-banking Financial Companies (NBFCs)²⁸ and have access to wholesale debt funds from commercial banks and the National Housing Bank (apex body in housing finance operated by the Reserve Bank of India).

Agriculture

Overview and Need Assessment

Agriculture and allied sectors provide livelihoods to more than 70% of the rural population in India. Despite this, agriculture accounted for just 14.6% of GDP in 2009–10 as compared to 17.8% in 2007–08.²⁹ The decline in growth of agriculture and allied sectors is a result of multiple factors, including small farm holdings, poor access to credit, dependency on monsoons, lack of adequate capital investments, poor knowledge of modern agricultural practices, misaligned government policies, and other institutional inefficiencies.

SE Involvement in the Agriculture Sector

Social enterprises that operate in the agriculture space create economic and social value by eliminating inefficiencies that exist in the current value chains. These enterprises can be broadly categorized into those supporting the value chain pre-harvest, those supporting post-harvest operations, and those that work with the dairy value chain.

The products and services offered by SEs operating in the pre-harvest category attempt to increase agricultural yield in an economically and environmentally sustainable manner. Aakruti Agricultural Associates and Janani Foods are examples of SEs in this category. These SEs collectivize small/marginal farmers, distribute information and advisory services, supply farm equipment, ensure access to quality inputs, and teach organic farming practices. The business models of enterprises operating in the pre-harvest space vary based on products or service offered and legal structure. These enterprises are structured as both for-profit and not-for-profit entities.

Enterprises in the post-harvest space attempt to eliminate supply chain inefficiencies while ensuring economic profits for all value chain actors. Field Fresh Food, Mother Earth, and Star Agri are SEs operating in the post-harvest space. SEs in this space are actively involved in procurement, storage, transport, processing, and retailing. Operations in the post-harvest space require a substantial amount of capital and operational expenditure, causing most business models to be structured as for-profit entities.

Dairy farming is a growing activity for SEs in the agricultural space. These SEs are typically involved in aggregation, procurement, and processing and are structured as for-profit entities. Many for-

²⁸ NBFCs undertake most roles of financial institutions, except that of accepting deposits from the public. Their source of funds is usually in the form of wholesale debt from other banks, which they in turn retail as smaller loans.

²⁹ Central Statistical Organisation, Ministry of Statistics and Programme Implementation, Government of India.

profit dairy enterprises also have substantial farmer ownership. Those that are focused on capacity building and training of the dairy farmers are typically structured as not-for-profits. Despite attractive business economics, the dairy farming sector is in its early stages of development and has not attracted significant investor interest.

Company Profiles in the Agriculture Sector^a

Company	Description/Mission	Activity	Legal Structure	Financials
Suminter Organics	"Founded on the notion that organic farming contracted out to small farmers in India would not only help to fulfill the worldwide growing demand for organic produce but also lead the participating farmers to greater economic stability"	Expanded reach within Gujarat, Maharashtra, Kerala, Rajasthan, and Uttar Pradesh to include over 7,500 farmers and 40,000 acres of farmland.	Private Ltd.	Profits after tax for FY 2009: INR 6.5 million (\$136,000)
Aakruti Agriculture Associates	"Provide proprietary methods for identifying, qualifying, recruiting, and managing farmer entrepreneurs who serve as key participants in local, low cost, high productivity seed multiplication systems"	12,730 clients, 30 employees, 5 branches, 5 cities, 4 towns, 60 villages, 40 entrepreneurs, 300 seed producers, 1500 acres under seed production	Private Ltd.	Annual turnover for FY 2009: INR 27.5 million (\$577,000)
Janani Foods	"To Increase farm productivity and make farming a profitable business proposition and thus improve farmers' standard of living, by providing innovative, personalized and customized solutions at their farm gate"	60,000 units sold, 1000 clients, 15 employees, 4 branches, 30 villages	Private Ltd.	Annual turnover for FY 2008, 2009 and 2010: INR 30 million (2008: \$654,000, 2009: \$630,000, 2010: \$659,000)
Star Agri	"To be the most trusted solution provider in agribusiness by building the finest warehousing infrastructure across the country and delivering value to all stakeholders – farmers, banks and buyers across the agriculture processing value chain"	Achieved 500,000 tons warehousing capacity. Started construction of agri-logistic yards.	Private Ltd.	Net sales for FY 2009: INR 31.4 million (\$659,000)

^a Intellectap research.

Policy Enablers and Barriers

The government has instituted several schemes, such as a capital subsidy scheme, to promote investment in the post-harvest space. One of the key challenges facing SEs operating in the post-harvest space is the high level of market regulation, especially in the procurement and pricing of agricultural commodities. The flow of equity capital to the sector is limited to micro-venture capital and impact investments. However, mature companies in the organic agriculture space, such as Suminter Organics, are able to attract substantial investor interest.

Recently, a new legal form, “producer company” was instituted to promote for-profit models aggregating producers. Indian Organic Farmers and Vanilla India are two recently formed producer companies. However, the response to the new legal structure has been limited as the structure is not flexible enough to accept external equity, thus limiting growth through external equity. Many agri-businesses thus register as a private limited company instead as this allows them to raise capital, though this limits the potential social impact because of lack of farmer-based ownership in the company.

Education

Overview and Need Assessment

The education sector³⁰ in India lacks the capacity to educate the largest young population in the world—542 million people in India are less than 24 years old. Exploiting this demographic dividend requires significant investment in all levels of education. India’s per capita public expenditure on education as a percentage of GDP is amongst the lowest in the world.³¹ While 96.5% of children from ages 6 to 14 are enrolled in school, many do not receive quality education.³² In 2010, only 20% of children in Grade 3 were able to read a text of Grade 2 difficulty. In fact, even by Grade 5, only 53% of children were able to read a Grade 2 text.³³ Even though the public expenditure per student enrolled in government schools is relatively high, education outcomes are uneven.

SE Involvement in the Education Sector

Total private expenditure on education in India as of 2007–08 was approximately \$20 billion per annum.³⁴ The key players in the education space are formal schools (K-12 and higher education), education content providers, and private coaching schools/institutions. Equity flow in the education space as a whole is estimated to be about \$261 million.³⁵

Demand for quality K-12 education among poor households has led to the creation of many affordable private schools.³⁶ The affordable schools market is extremely fragmented with very few organized affordable school chains; it is estimated that there are around 73,000 such affordable schools spread across India’s 542 million young people.³⁷ Some of the larger players in the affordable education space are Rumi Education and Enterprising Schools.

³⁰ Education other than vocational training.

³¹ India is ranked 107th amongst 127 countries according to UNESCO.

³² Pratham, 2010, *Annual Status of Education Report 2010*.

³³ *Ibid.*

³⁴ Tilak, Jandhyala, 2009, “Household Expenditure on Education and Implications for Redefining the Poverty Line in India”, Planning Commission Background Paper.

³⁵ Intellect research and analysis.

³⁶ Affordable schools typically have a monthly fee of \$12 or less.

³⁷ Gray Matters Capital, “Affordable Private School Initiative”, accessed from graymatterscap.com on October 31, 2011.

The non-school education market in India is currently dominated by the coaching class business. The content and coaching market has witnessed substantial growth over the last few years, attracting a considerable level of equity investor interest. Some of the key players in the market are Educomp and Everonn. Similar to the affordable school market, the existence of various small-time privately run coaching centers leads to a highly fragmented market.

Company Profiles in the Education Sector^a

Company	Description/Mission	Activity	Legal Structure	Financials
Butterfly Edufields Ltd.	“To make learning an easy, enriching and enjoyable experience for children”	15,000 clients, 2 branches, 5 cities, 5 towns	Private Ltd.	Annual turnover for FY 2010: INR 6 million (\$132,000)
Rumi Schools	“To provide quality affordable education by running low-cost schools”	9 foundation schools with 4,000 students	Private Ltd.	Not available.
Hole in the wall Education Limited	“Lighting the spark of learning”	More than 500 Learning Stations reaching out to remotest and the most underserved areas in 16 states in India.	Public Ltd.	Annual turnover for FY 2009: INR 36.5 million (\$766,000)
Indian School Finance Company	“Providing easy-to-access funds at competitive interest rates to help schools grow and provide a better quality of education to their students”	Visited approximately 2,500 schools; approximately 70 active clients and have a healthy loan pipeline of 140 schools and 40 schools at a more advanced stage of the lending pipeline.	Private Ltd.	Profit after tax for FY 2010: INR 36.1 million (\$793,000)

^a Intellectap research.

Policy Enablers and Barriers

Formal schools are highly regulated; long-standing rules mandate all formal educational institutes to operate as not-for-profit institutions. In contrast, the private coaching and education content space is unregulated. The flow of equity capital to the formal education space is limited as not-for-profit structures offer limited financial return to investors. Since formal schools require substantial access to capital this creates constraints for SEs. In order to attract equity capital, many affordable schools operate a two-tier structure, in which the school is a not-for-profit entity, but the school management company is a for-profit entity; equity investments take place in the for-profit entity. Though many affordable schools have a two-tiered structure to access equity capital, many schools depend on debt capital for scale.

In order to leverage the infrastructure of mainstream private schools to benefit the poor, the government has instituted the Right for Education Act that mandates private schools to provide 25% of their seats for low income households with expenses for these seats covered by the government. However, this policy is yet to be implemented as its facing stiff opposition from school managements, parents, and even some politicians who have stakes in schools.

Energy

Overview and Need Assessment

Uniform access to energy is an essential part of sustainable development. In India, the access to the energy landscape is skewed as a result of poor energy distribution in rural parts of the country. This is mainly due to the financial infeasibility of laying expensive electric cables to reach remote areas that only cover small populations. According to the National Sample Survey of 2007, approximately 75% of villages are electrified, but only 50–55% of households have access to electricity. Rural populations primarily rely on kerosene for lighting and biomass for cooking. The situation of unequal access to energy is compounded by the fact that there is around 9% shortage in current energy capacity.³⁸ India needs an additional 80,000 million units of power capacity to satisfy its energy demand³⁹ and improved distribution systems to minimize transmission losses.

It is estimated that rural consumers across India spend about \$4.86 billion per year on energy.⁴⁰ Energy sources used by rural populations are not only inefficient but also cause significant environmental and health problems. The underpenetrated energy market offers immense potential for product interventions. SEs enter this space with the objective of enabling access to environmentally friendly, affordable energy.

SE Involvement in the Sector

SEs primarily focus on off-grid/distributable renewable energy and waste-to-energy projects. Energy-centric SEs require a substantial amount of capital for power generation, product development, and distribution, causing these SEs to be structured as for-profit entities. Enterprises also adopt innovative distribution models to reach the end consumer. SEs focused on underserved populations that are still in the early stages of development. Thus, the revenue, scale, and profitability of the enterprises are relatively small. The space has both niche players such as Husk Power and Desi Power, and large corporations like Tata BP Solar, Philips, and Schneider.

Case Study: Ankur Scientific Energy Private Ltd.

Ankur Scientific was established in 1986 in Vadodara, Gujarat, with the mission to transform rural India from low-priority consumers of electricity to net exporters of clean renewable energy. The flagship product of Ankur Scientific is a mini-power plant based on biomass gassifier technology.

Ankur Scientific has developed new technologies that utilize a variety of

Year of Inception: 1986
Legal Structure: Private Limited Company
Founders: Dr. B.C. Jain
Turnover: \$4.4 mn (FY-2010)
Geography: Pan India and over 20 other countries
Impact: Over 80% reduction in fuel costs, rural employment

continued on next page

³⁸ *The Financial Express*, May 05 2009, "India stares at 9.3% energy shortage this fiscal".

³⁹ *Ibid.*

⁴⁰ *BFV News*, October 27, 2010, "Clean-Tech for India's rural poor – a business opportunity?".

Box *continued*

waste biomass, like firewood, wood waste, coconut shells, rice husk, mustard stalks, soya dunage etc., to suit the diverse Indian environments.

Biomass gassifier technology is advantageous because feedstock is available locally and power is generated close to the location of use. Usage of local biomass gassifiers eliminates transmission losses while also effectively utilizing agricultural waste.

Recently, Ankur Scientific has increasingly forayed into overseas markets and currently supplies its biomass gassifiers to over 20 countries, accounting for about 65–70% of their current revenue. However, certain regulatory inhibitors have negatively impacted the uptake of Ankur's products in India.

Ankur Scientific has experienced a revenue growth of 32% per year over the last three years; its current revenue is estimated at \$5.4 million. Ankur Scientific is in the process of reorganizing its future strategy as the company plans to enter additional market segments in the energy space.

Impact: Usage of biomass gassifier technology results in significant environment benefits and cost savings. Using a gassifier in the 100% biomass mode can result in 80% savings over conventional fuel costs. The processed heat from the gassifier can be utilized for the captive energy needs of small industries. Biomass gassifier plants also have the potential to generate employment opportunities.

Policy Enablers and Barriers

The government is encouraging the participation of private suppliers across all sectors of energy through progressive policies and schemes. Some of key regulatory enablers in the energy sector are:

- No approval required for setting up mini-grids delivering power within a 3 km radius
- Capital subsidies for mini-grid technologies and solar products
- Budgetary allocation of \$6.2 billion for rural electrification
- A \$688 million fund for clean energy.

The regulations in the energy space act both as enablers and inhibitors of growth. For instance, though the government has removed the need to obtain approvals for mini-grids, getting a commencement approval is time consuming and requires communicating with several departments. Some of the other key regulations that negatively impact the sector are the high import duty on solar products, hardware compliance tests necessary to acquire subsidies, and subsidies for competitive products such as kerosene.

Despite some regulatory inhibitors, the space has witnessed a significant flow of capital as private equity investments in clean energy grew from \$851 million in 2005 to \$2.1 billion in 2008 before witnessing a slowdown due to the financial crisis.⁴¹ However, the potential untapped opportunity for investors in clean energy sources for rural consumers is about \$2.1 billion per annum.⁴²

⁴¹ World Resources Institute and Institute for Financial Management and Research, 2010, *Power to the People*.

⁴² *Ibid.*

Livelihoods Promotion

Overview and Need Assessment

Non-farm livelihood activities account for a significant portion of employment in India. Despite the potentially large employment numbers, gaps in capacity, infrastructure, access to finance, and technology diminish the potential of the sector. SEs active in this space either promote livelihood activities or help entities address the gaps in the current livelihood operations.⁴³

SE Involvement in the Livelihoods Sector

SEs in the livelihood space can be broadly classified into two categories: entities that promote livelihoods and entities that facilitate skill development. Livelihood promotion activities primarily include organizing the informal non-farm/farm activities sector and facilitating market linkages. Skill development primarily includes enhancing the employability of unemployed youth through structured training courses.

SEs promoting livelihoods can be further classified based on their output, which could be a service or a product. Service-based enterprises provide impact in areas such as business process outsourcing (BPO), courier delivery, etc. Service-based entities train and employ rural youth for operations; eGramIT, Desi-crew, and Source Pilani are some of the entities that operate in this space. The product-based enterprises aggregate artisans (farmers for agriculture related activities) and mainstream their operations by facilitating access to inputs, finance, and consumer markets.

Skill development services range from language training to job-specific training for individuals. The current market size for skill development is estimated to be \$1.6 billion and is expected to grow at a rate of 25% over the next few years.⁴⁴ Some of the major players in the skill development space include TeamLease, Pipal Tree Ventures, Babajob.com, and Labour Voices (see also the chapter on Education).

Enterprises involved in the livelihoods promotion space adopt various legal structures such as for-profits, not-for-profits and/or hybrids (combination of for-profit and not-for-profit structures). In many livelihood enterprises, the artisans or producers hold substantial ownership in the enterprise. Rangсутra is one example of this legal structure. SEs operating in the skill development sector are mostly structured as for-profit entities.

The flow of capital into livelihoods promotion is limited because few business models in the space have achieved their desired scale or profitability. The flow of capital into skills development is gradually increasing because many enterprises in the sector were early starters and are currently in the growth stage of development.

⁴³ Livelihood financing is considered as a part of financial inclusion and not included in this section.

⁴⁴ *Financial Services for the Unbanked*, IDFC, 2008.

Case Study: Rangsutra

In most of rural India, women are highly dependent on ad-hoc or seasonal jobs for additional household income. Yet such opportunities are intermittent while women seek continuous sustainable livelihoods. Bikaner based Rangsutra provides sustainable livelihoods by organizing communities to create top quality, innovative handmade products on the principals of fair-trade.

Year of Inception: 2006
Legal Structure: Private Limited Company
Turnover: \$1.61 million
Profit Margin: 7.53%
Geography: Andhra Pradesh, Assam, Rajasthan, Uttar Pradesh, West Bengal
Impact: Livelihoods creation for ~2000 artisans

Rangsutra trains and advises about 30 producer groups across India (with each producer group varying in size from 5 to 350 artisans), provides raw material inputs, procures the finished goods, and supplies the finished goods to Fabindia. The majority of artisans in Rangsutra are direct shareholders of the company with 1,027 artisans owning 27% of the company.

Over the last three years Rangsutra has experienced an annual growth of 66%. Profit margins from operations are on the rise as a result of an increase in capacity utilization and cost efficiency. Rangsutra raised equity in 2007 from the micro-venture fund Aavishkaar Goodwell and Artisan Micro Finance Private Limited, a fund setup by Fabindia. In the future, Rangsutra aims to increase the number of artisan shareholders to 5,000 by 2013 and 10,000 by 2015.

Impact: Rangsutra has created livelihoods for around 2,000 artisans living in remote villages (1,027 of which are direct shareholders). The additional household income of artisans associated with Rangsutra has increased from \$22 to \$66 per month. In addition, Rangsutra enables access to financial services and government schemes.

Policy Enablers and Barriers

Livelihoods promotion is not a well-defined sector and thus the impact of any regulations on the operations is negligible. The skills development sector is unregulated.

Water and Sanitation

Overview and Need Assessment

The water and sanitation infrastructure in India is under strain because of population growth and rapid urbanization; only a fraction of urban households have access to clean, piped drinking water and more than half the households in rural and urban areas have no access to any kind of sanitation facility. The demand for clean water and sanitation services is expected to increase in the future and significant investments and interventions are necessary to meet these needs.

SE Involvement in the Water Sector

The water sector can be broadly classified into three areas: water harvesting and storage, water supply and distribution, and piping and waste management. The current water infrastructure suffers from inefficiencies across all the three areas of the water market. With the water and sanitation infrastructure under strain, the government has instituted various policies to attract private sector resources, resulting in the entry of large corporations and SEs to the space.

Large corporations dominate the water equipment installation and operations markets. In comparison, SEs primarily operate in niche markets and in close collaboration with the beneficiary community. Areas of SE activity are mainly comprised of rainwater harvesting, small-scale water networks, community water treatment, and point-of-use filtration. SEs in the water space are structured as both for-profit and not-for-profit entities. The not-for-profit entities are typically grant funded and operated by the beneficiary communities.

Sanitation infrastructure is also inadequate. In the absence of adequate sanitation, open defecation is inevitable and has become accepted behavior. Open defecation and the disposal of human excreta poses significant environmental and health risks. Government departments and SEs dominate the sanitation services sector. The key operating models adopted by SEs are household toilets, pay-to-use community toilets, and “ecosan” toilets, where toilet waste is used to create biofuel. SEs in the sanitation sector are structured both as for-profit and not-for-profit entities; the for-profit enterprises primarily operate in sanitation technology space, while not-for-profits construct and manage the toilets.

Case Study: Shramik Sanitation Systems

Shramik Sanitation Systems (3S India) was set up in 1999 in Pune to address the gap in the urban sanitation services. 3S India designs, manufactures, and deploys portable toilets and waste disposal system across urban agglomerations that have no water supply or sewage system.

The company set up its manufacturing plant to produce portable toilets in 2006. The walls of the cabin are imported and are made of high-quality weather resistant durable material while the rest of the unit is manufactured and assembled in the plant. Currently, they have deployed many units across major metros and tier-one cities. Key sources of revenue are daily fees for maintaining the toilets.

3S India has currently installed over 1,000 portable toilets in urban areas catering to over 100,000 uses daily, providing the urban poor with an innovative and safe alternative to unusable public toilets. In addition to addressing the gaps in proper sanitation, the business operations of 3S India have also resulted in job opportunities for individuals from marginalized sections of the society.

Year of Inception: 1999

Legal Structure: Private Limited Company

Founders: Mr. Rajeev Kher

Turnover: NA

Geography: Pune, Mumbai, Chennai, Delhi, Bangalore, Goa, Pondicherry, Cochin

Impact: 1,000 toilets, catering to over 100,000 uses daily by the urban poor.

Case Study: Waterlife

Ground water quality is poor in India; around 85% of rural households do not have access to safe quality water for consumption. Major contaminants include micro-bacteria, fluoride, arsenic, iron, salt, and nitrate. \$1.5 billion is spent annually on rural medical expenses, of which \$600 million is due to water borne diseases. Waterlife addresses this gap by installing and maintaining water purification plants that purify water from various sources such as surface water (lakes and ponds), ground water, and pressurized flows (municipal supplies) in each village.

Year of Inception: 2008

Legal Structure: Private Limited Company

Founders: Sudesh Menon, Mohan Ranbore, Indranil Das

Turnover: \$3.6 million (FY 2011)

Geography: Tamil Nadu, Maharashtra, West Bengal, Uttar Pradesh

Impact to date: 1.1 mn people

Waterlife minimizes business risk by having multiple revenue streams including sales of equipment, water, and maintenance contracts. Waterlife also has two types of purification plants: community water systems (high capacity units for dense villages) and customized contaminants removal units (lower capacity units to tackle specific impurities). Additionally, Waterlife works on establishing infrastructure for water distribution in villages. Their major revenue streams are equipment sales to the government and water sales to consumers.

Waterlife had a successful start which can be attributed to the experience of the management team in both multinational organizations and start-ups in the water market. Within two years of inception, it has achieved financial and operational breakeven while also attracting investment from Aavishkaar, the micro-venture fund. Waterlife plans to reach 10 states in the next year alone, and focus on government projects in the next few years.

Impact: Provided safe water to 1.1 million people through 1,300 installations in 4 states and saved over 50,000 people in more than 250 villages of West Bengal last year from falling prey to arsenicosis, a contaminated water-borne disease that may cause skin cancer.

Policy Enablers and Barriers

The policies and regulations in the water management space are handled by multiple government agencies, and this multi-tiered structure negatively impacts the participation of the private sector. The government is attempting to overcome the shortcomings in the current system by forging transparent public-private partnerships. The sanitation services sector is unregulated; government assistance is required to integrate new private sanitation projects with existing sewage network.

Very few successful business models have scaled enough to attract large amounts of equity capital in the water and sanitation sector. Most current models require high investment and the potential revenue generation is low. Current projects in water and sanitation are often subsidized by the government (subsidy is provided in the form of land, assured water uptake tariff, etc.). Given the demand for water and sanitation services, it is expected that innovative business models will develop to serve the underserved market.

Financial Inclusion

Overview and Need Assessment

Access to finance by the underserved is an essential prerequisite for inclusive growth. Currently, only 10% of the total demand for microcredit is met by MFIs.⁴⁵ Moreover, this gap is concentrated in India's northeastern Hindi-speaking belt. In the Indian state of Uttar Pradesh, only 1.5% of total microcredit demand has been met.⁴⁶ The underserved also have limited access to other financial services such as micro-savings and micro-insurance products.

SE Involvement in the Financial Inclusion Sector

Microfinance Institutions (MFIs) act as financial intermediaries with products and processes geared towards serving vulnerable sections of the society. MFIs in India started out as not-for-profit entities that provided standardized credit products. As the credit portfolio of MFIs grew rapidly, access to capital became vital. Since not-for-profits cannot legally attract equity investments, most MFIs transitioned into a for-profit model, usually structuring themselves as Non-banking Financial Companies (NBFCs). The NBFC structure enabled access to both debt and equity funds. Currently, an estimated 300 institutions provide loans to low-income households for income generating activities, with a client base of 27 million active borrowers and \$4.5 billion in outstanding loans.

The Self-Help Group Bank Linkage Program promotes financial transactions between commercial banks and self-help groups (SHGs). In addition to the commercial banks, the other key stakeholder in the SHG Bank Linkage Program is a not-for-profit organization that promotes the members of the SHG. The bank linkage model works on the principle of community ownership; no profit-oriented delivery model exists in this space. Currently, there are about 7 million SHGs linked to banks through this program.

Branchless banking is another relatively new strategy in the financial inclusion space. Enterprises in the branchless banking space use technology (smart cards or mobile phones) to facilitate access to finance for under-banked populations. Branchless banking SEs are structured as for-profit entities as the technology infrastructure and management require significant capital.

The rapid growth of the financial inclusion space has attracted the attention of equity and debt investors. Over the last three years, many mainstream investors actively invested in large for-profit MFIs. SKS Microfinance was the first MFI to go public; it raised \$367 million through a public issue. Bank lending to MFIs increased 2.8 times from \$1.1 billion in March 2009 to \$3.2 billion in March 2010.

⁴⁵ Intellectap, 2010, "Inverting the Pyramid: Indian Microfinance Coming of Age".

⁴⁶ *Ibid.*

Case Study: Grameen Financial Services Private Limited

Grameen Koota was set up in 2004 as a non-profit in Bangalore to serve the poor in rural and semi-urban regions in the southern state of Karnataka. In 2007, it converted into a for-profit Non-Banking Finance Company, Grameen Financial Services Private Ltd. (GFSPL), so that it could access the commercial capital required to scale. Today, it has over 400,000 clients spread across Karnataka, Tamil Nadu and Maharashtra with about \$80 million in outstanding loans. GFSPL decided to stay away from Andhra Pradesh, which accounts for about 40% of the outstanding microfinance portfolio of India (prior to last year's AP microfinance crisis).

Year of Inception: 1999 as a Trust, converted to NBFC in 2007

Legal Structure: Non Banking Finance Company

Founder: Professor David S. Gibbons

Turnover: \$12 million

Geography: Karnataka, Maharashtra, Tamil Nadu, Madhya Pradesh

Impact: Over 400,000 poor women borrowers

GFSPL provides a broad product mix of both financial and non-financial products. Products offered by GFSPL include financial services such as water and sanitation loans, cook stove loans, livestock insurance and non-financial services such as educational services for children, financial literacy training etc. GFSPL offers a more diversified and richer suite of products and services compared to other Indian MFIs.

GFSPL has exhibited significant growth in operating income with a 62% compounded annual growth. Despite high revenue growth, profitability has not been uniform due to frequent repayment crises. In spite of these setbacks, GFSPL maintains a comfortable Capital Adequacy Ratio of 19% as compared to the RBI mandated figure of 15%.

Impact: GFSPL follows a balanced approach between growth, profitability, and social impact. GFSPL's wide ranging development activities and investment in training and development of field staff are key indicators of its differentiated positioning in the microfinance space. GFSPL has also adopted the use of Grameen's Progress Out of Poverty Index (PPI) to score each customer and track his or her progress over time. The PPI conducted by GFSPL indicates an improvement in the household income of clients with each borrowing cycle.

Policy Enablers and Barriers

In order to improve access to finance in India, the Reserve Bank of India (RBI) has made financial inclusion an integral part of its future banking outreach strategy. The RBI has instituted a number of policy measures to promote financial inclusion initiatives; the key initiatives in the financial inclusion space are the Self-Help-Group Bank Linkage Program, microfinance, and branchless banking through a business correspondent model.⁴⁷ Regulatory provisions made by the RBI are also one of the key enablers for financial inclusion in India. Some of key policy initiatives of the RBI include priority sector lending, no-frills accounts, branchless banking, and mobile ATMs.

⁴⁷ This is an RBI provision that allows banks to use local businesses to facilitate financial and banking services in under-served areas. BCMs can exist up to 30 km from the stipulated bank. BCMs include local shops, medical and fair price shop owners, phone booth operators, petrol pumps, retired teachers, and functionaries of SHGs.



Summary and Conclusion

Over the last decade, the scope of SEs and impact investors in India has expanded beyond financial services and agriculture to include other sectors such as energy, sanitation, and health as businesses and entrepreneurs have come to recognize the triple bottom line value created by such enterprises.

SEs have adopted different business models across and within each sector. Despite the variations in the sector and business models, there are some design elements that have shown success in multiple SE markets. Common practices among successful SEs are:

- Customization of product and service to meet the needs of target market
- High product and service quality
- An asset-light infrastructure to minimize capital expenditure and maintenance costs
- Innovative outreach or distribution models to deliver products and services in a cost effective manner
- Usage of appropriate technology in design, production, and service delivery to improve efficiency
- Consumer ability to pay via variable pricing or financing
- Aggregation of multiple suppliers, especially in rural areas

The number of investment-worthy SEs is on the rise, but limited access to growth capital remains a key constraint. As the SE space in the country continues to grow, the ecosystem to support it will need to grow as well. With a rise in the number of interested investors and deals, SE-focused trading platforms are all the more relevant, as are impact assessment standards, measurement tools, and financial advisors to support such transactions.

Recommendations

As SEs in India continue to grow and increase their impact, it would be beneficial for them to gain a more regional perspective. SEs should not only look to raise capital from local investors, but should also look to attract more regional and global capital to grow their impact. In order to gain this regional perspective and attract regional capital, innovative investment vehicles (such as the regional platforms being developed by IIX Asia, based in Singapore).

Since India is one of the centers of innovation for SE development in Asia, Indian SEs should also consider franchising so that SEs in other countries may utilize their successful models. By creating replicable and effective models, SEs can further scale their impact.

Furthermore, SEs and investors should consider forming an Indian SE network so that they can have a community in which to share their ideas. This will in turn help the entire Indian SE space expand. By accessing outside growth capital and collectively pushing the SE space forward, India can continue to be a pioneer in the SE and impact investment space.



India Social Enterprise Landscape Report

Social enterprises hold the potential to make India's spectacular growth story work better for its poor citizens. India's rapidly growing economy has not managed to alleviate extreme poverty, which encompasses nearly half the country's population. Reasons for this situation include inadequate infrastructure, unreliable state delivery of affordable education and health services, and resource limitations. By employing innovative business models, social enterprises are addressing India's vast development needs in a sustainable manner using viable revenue models. More and more impact investors are entering India's social enterprise space with an interest in supporting businesses with triple bottom line returns—that is, profits (or at least financial sustainability), and social and environmental impact.

About the Asian Development Bank

ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to two-thirds of the world's poor: 1.8 billion people who live on less than \$2 a day, with 903 million struggling on less than \$1.25 a day. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.

Asian Development Bank
6 ADB Avenue, Mandaluyong City
1550 Metro Manila, Philippines
www.adb.org