

# IMPACT INVESTING IN INDIA

Prerna\*

\*Research scholar, University School of Business, Chandigarh University, Punjab

**Abstract :** *Financial innovation would be required in order to unlock funding for social entrepreneurs in a similar way that venture capital unlocked it for high-tech entrepreneurs and the impact investment is that innovation. Private capital can be proven great to meet social challenges in the areas of education, health, poverty, environment etc. It's a particularly exciting time to look at impact investing in India because of the dynamic economic growth, insight of local entrepreneurs, and important societal needs. This paper is an attempt to study the impact investing in context of India.*

**Index Terms -** Impact Investing, Socially Responsible Investing (SRI), Philanthropy, Financial Inclusion, ESG

## I. INTRODUCTION

Rising demand for socially responsible investing has resulted in new ways of using capital to work the world over. In the past decade, “impact investing” has challenged the long-held view that social returns should be funded by philanthropy, and financial returns funded by mainstream investors. Impact investments seek to create social or environmental benefits, directing capital to enterprises that accomplish impact goals, which traditional business models cannot. Till now, investors were looking to effect social change through the socially responsible investing (SRI) and environmental and social governance (ESG), impact investing represents a different view. In impact investment, ESG factors are not considered for rejection of opportunities; rather they are in centre of the decision-making criteria for investors.

“Impact investing are the investments made into companies, organizations, and funds with the intention of generating social and environmental impact alongside a financial return.” as defined by the Global Impact Investing Network.

The private sector is an important and underutilized player in addressing important societal needs, in India and around the world. India is regarded as a hub for impact investing, because of highly evolved ecosystem with diverse stakeholders, leading investors, and a wide range of enterprise enablers.

## OBJECTIVES

The major objective of this paper is to understand the concept of impact investing in context of India.

The study also tries to analyse the trends for impact investing in India.

## DATA & METHODOLOGY

This paper is of descriptive in nature. The data used here retrieved from secondary sources from newspapers articles, reports and issues by various councils and governing bodies.

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### ❖ Trends:

India is emerging as one of the most attractive markets for impact investing worldwide because of its opportunity-rich environment. High demand for investments is likely to grow due to increasing population, underlying economic growth, stable financial markets, strong rule of law and large unmet social needs. Here are the trends for the period 2010 to 2016 regarding impact investing in the context of India according to the report presented by McKinsey & co. in September 2017:

1. Impact investment in India topped \$1 billion for the first time in 2015 and between 2010 and 2016, totalled more than \$5.2 billion as the market attracted more than 50 active impact funds.
2. According to the report, impact investing in India could grow to \$8 billion a year by 2025.
3. Financial inclusion and clean energy projects remain the most attractive sectors for investment, respectively accounting for 43 and 21 percent of investments last year.
4. Average deal size has more than doubled (from \$7.6 million in 2010 to \$17.6 million in 2016) while the number of deals has remained stable (at between 60 and 80 a year over the period).

### ❖ Active Impact investors in India:

Today there are 30+ active impact investors in India that have invested a cumulative \$1.6 billion in approximately 300+ enterprises and funds across a range of industries such as financial inclusion, agribusiness, healthcare, education, clean energy etc. Some of these investors are:

**1. Intellegrow:** Intellegrow provides customized debt finance to small and growing businesses in India. They are focused on the following sectors: 1. Agricultural supply chain 2. Clean Energy 3. Education 4. Financial inclusion 5. Affordable healthcare 6. Water and Sanitation.

**2. ResponsAbility:** ResponsAbility Investments AG is one of the world’s leading asset managers in the field of development investments and offers professionally-managed investment solutions to private, institutional and public investors. The company’s

investment solutions supply debt and equity financing predominantly to non-listed firms in emerging and developing economies. Through their inclusive business models, these firms help to meet the basic needs of broad sections of the population and to drive economic development – leading to greater prosperity in the long term.

**3. Aarohi:** The Aarohi Fund is a socially-motivated investor that helps promising, early-stage affordable housing entities.

**4. Aavishkaar:** Aavishkaar, a part of the Aavishkaar-Intellecap group, is one of the global pioneers in impact investing, taking an entrepreneurship-based approach to development. Main focus sectors are Agriculture, Affordable housing, Affordable health, Affordable education, Skill development & livelihood, Sanitation & waste management, Financial inclusion, Clean energy, Rural infrastructure, Water.

**5. Unitus Seed Fund:** USF is the most active seed- stage venture firm in India that supports startups who are innovating for the masses. They are interested in meeting entrepreneurs, investors and other people involved in the start up ecosystem in India. USF specializes in high growth sectors and through their programs help startups raise funding.

**6. Tata Social Alpha:** Social Alpha is the ‘ecosystem architecture’ created by the ‘Foundation for Innovation and Social Entrepreneurship’ to nurture start-up teams through their lab to market journey. It is an initiative supported by the ‘Tata Trusts’, to promote socially relevant innovations and entrepreneurship with a mission to create impact. Social Alpha team believes that entrepreneurship has the potential to bring about a disruptive change in the life of masses, by creating high quality, commercially viable, accessible and affordable solutions for social and economic problems.

**7. Menterra:** Menterra Social Impact Fund invests in Healthcare, Education and agriculture.

**8. Omnivore:** Omnivore invests in start ups from India developing breakthrough technologies for food, agriculture, and the rural economy.

**9. Caspian:** Caspian invests in enterprises that address the problems of access and efficiency in business ecosystems that have positive social and environmental impact. They provide both debt and equity capital and their focus areas are food & agriculture, affordable education, housing and health, financial inclusion, clean energy, sanitation and rural infrastructure.

**10. Asha impact:** Asha Impact is a platform for a small group of like-minded leaders to invest in high-quality social enterprises with scalable business models that can profitably deliver products/services to the under served population.

#### ❖ Road ahead of impact investing in India:

As per McKinsey reports, India has a high growth potential of 20-25% annually for impact investing in future due to large unmet social needs and robust market forces. Impact investment in India is expected to reach \$6-8 billion by 2025. It will generate social benefits and commercially viable products and services which will serve over 3 billion under served people.

#### REQUIREMENTS FOR GREATER IMPACT

The impact investment industry and enabling ecosystem can take various steps to fulfil its potential in future. Some of these topics are as follows:

1. Pursue transparency measures
2. Expanding funding
3. Market based innovations.
4. Governance and reporting.
5. Attract and develop talent.
6. Strengthen industry collaborations.

#### CONCLUSION

Impact investing can be a source to fund, catalyse, and scale approaches that improve millions of lives. India is an opportunity-rich environment and is emerging as one of the most attractive markets for impact investing worldwide. High demand for investments is likely to continue due to increasing population, underlying economic growth, stable financial markets, strong rule of law and large unmet social needs. The industry could work with the government to leverage CSR funds for approved uses in the impact investment ecosystem, like funding pay-for-outcomes programs. The industry could explore market-backed innovations, for example by broadening participation through instruments such as social or development impact bonds, with the support of specialized intermediaries.

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