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Crossing the Divide | The business of social good

Close to \$300 million could flow into social enterprises by year-end as the success of microfinance and disenchantment with mainstream models see investors look at businesses that will create public benefit and also bring returns

Archana Rai

Three years ago when we first started looking for money, we had only social venture funds interested in us; now, in the last month, I have got calls from mainstream venture capital funds who are interested in investing," says Ashwin Naik, founder of Vaatsalya Healthcare Solutions Pvt. Ltd, a start-up that is building a chain of low-cost hospitals in rural and semi-urban India.



Sustainable model: Reshma Anand (in the foreground), founder and CEO, Earthy Goods and Services, says she wasn't trying so much to set up a social enterprise as to find out how economic activity could help support livelihood in rural areas. Harikrishna Katragadda / Mint

That perhaps indicates how far for-profit social enterprises have travelled in the last few years to be recognized as viable business models. The low-cost hospital model has proved to be a magnet for investors who have backed Naik's start-up with Rs27 crore of venture capital financing in just three years. "There is always a social element to any new enterprise, but what we are now able to do is to turn these ideas into profitable and sustainable businesses as well", says Naik, a doctor by

profession who now has a chain of seven hospitals across Karnataka's hinterland towns.

Naik's success with the for-profit model is being replicated across the country. The for-profit model, as opposed to profit maximization, seeks returns on investment measured in part by the difference the enterprise makes to the life of a consumer. At least 300 investors and entrepreneurs gathered in Mumbai at the end of April to felicitate the country's most innovative social enterprises.

Fifteen enterprises, out of 50 finalists, were nominated as winners in five categories —education, healthcare, clean energy and environment, agriculture and rural innovation and employment generation. The event, called Sankalp (pledge) 2009, "aspires to become the equivalent of the World Economic Forum, where people interested in sustainable social and environmental development can set the tone for what is to come," says Pawan Mehra, co-founder, Intellectual Capital Advisory Services Pvt. Ltd, or Intellecip, an advisory firm in the social enterprise space that co-hosted the event.



Risk-reward formula: IFMR Trust's Bindu Ananth says entrepreneurs in the social sector typically lose out on large chunks of their equity ownership in the search for capital. Arjoon Manohar / Mint

The awards event was also the venue for the launch of the South Asia Impact Investing Forum, an initiative of the Global Impact Investing Network, or GIIN, a 750-strong group of investors who represent some of the world's largest institutions that fund projects in the social sector. Industry watchers say there are four crucial reasons why the social enterprise sector is getting worldwide attention.

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First, the desire for diversification, given the economic slowdown, is leading investors to sectors such as microfinance and rural agriculture, employment generation, education, housing and clean technology, where they can create public benefit and also generate returns.

Mainstream investor Nexus India Capital, which manages \$320 million (around Rs1,577 crore) in venture capital funds, has invested in Mumbai-based Suminter India Organics Pvt. Ltd, which supports organic farming in rural India, and D.light Energy Pvt. Ltd, which sells LED-based solar lamps in villages and small towns across the country. "We have a total of about \$10 million invested across these two companies and expect to invest 10% of our portfolio in social enterprises," says Sandeep Singhal, co-founder of the venture capital fund.

Second, there is disenchantment with mainstream investment models where 25-40% rate of return is sought regardless of the social and environmental impact of the venture, say industry experts.

"People are re-evaluating what their expectations of return on investment are. For instance, returns of 10-15% annualized over five-seven years from a business that also offers social impact is considered healthy," says Varun Sahni, India director, Acumen Fund Advisory Services India Pvt. Ltd, a social venture investment firm.

The company has investments of around Rs100 crore in the social sector in India, including in ventures such as water filtration firm Environment Planning Group Ltd and ambulance start-up Ziqitza Healthcare Ltd. The fund expects to invest Rs40-50 crore every year in this sector.

A Monitor Institute report estimates that in 5-10 years, investing for social impact will create a market worth around \$500 bn globally

Third, there is also a growing list of investors who have tasted success by putting their money in sectors such as microfinance.

"Since 2004-05, the demonstrable profits and expansion of the microfinance business model has pushed the social sector firmly into the spotlight," says Vineet Rai, founder and chief executive officer, Aavishkaar India Micro Venture Capital Fund, a venture fund that invests in rural and semi-urban India and manages \$14 million.

Finally, there is the rise of entrepreneurs who are adopting a market-based approach to solve social problems, be it access to clean water, healthcare or education in rural and semi-urban areas.

"My idea was not so much to set up a social enterprise as much as to find out how economic activity can help support livelihood in rural areas," says Reshma Anand, founder and chief executive officer, Earthy Goods and Services Pvt. Ltd, a social enterprise that helps rural producers market their personal care and food products in urban centres.

Anand, who did her MBA from the Indian Institute of Management, Bangalore, worked for six years at consumer products company Hindustan Unilever Ltd before she set up her own venture.

Buoyed by such interest, social venture investors are now estimating that by the end of this year, close to \$300 million could flow into companies in this sector across India.

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"In addition to social venture funds...there is also capital inflow from institutions such as IFC (International Finance Corp.), Nabard (National Bank for Agriculture and Rural Development, a government-owned funding agency) that will be directed at social sector projects this year," says Rai.

Yet another global support group, Aspen Network of Development Entrepreneurs, or ANDE, is looking to build synergies between those wanting to set up a social venture and intermediaries who can provide capital, mentoring and organizational support for such fledgling projects.

"In about a decade's time we expect social investing, which is estimated to be worth around \$4 billion in developing markets, to reach the size of the microfinance business, which has loans outstanding of almost \$25 billion currently," says Randall Kempner, executive director, ANDE, who expects to set up training programmes in India over the next 12 months in areas such as investment management for its members. "We also have a \$1 million re-grant facility for members, and I will be shocked if a significant amount of that fund is not granted to India-focused projects," says Kempner.



Co-investing: Varun Sahni (left), India director, Acumen Fund Advisory Services India; and Anant Kumar, chief executive officer, LifeSpring Hospitals. Bharat Sai / Mint

This flurry of activity centred on the social enterprise space in India is in line with similar trends unfolding elsewhere.

The Investing for Social and Environmental Impact report released in January by the Monitor Institute, the social enterprise arm of the Monitor Group, a global advisory and capital services firm, says profit-seeking investment to generate social and environmental good is moving

from the periphery of activist investors to the core of mainstream financial institutions. The report estimates that in the next 5-10 years, investing for social impact will create a market worth approximately \$500 billion globally.

This focus on the social sector does not in itself indicate the emergence of a new industry. However, what sets this current wave of social entrepreneurship apart is the slew of new and innovative models of doing business aimed at social and environmental good.

For instance, Earthy Goods has in the last 18 months focused on helping small enterprises in rural India build distribution networks to scale up their operations. "We begin with the basic quality compliance, how to label, how to pack, how to dispatch and once we have that in place, the next level is to ensure that they have adequate working capital," says Anand, whose company sometimes takes an equity stake in the business to help bring them up to scale. It is a model that has won them approval from the Chennai-based IFMR Trust, which is supported by the ICICI Foundation.

"We invested Rs3.5 crore in Earthy Goods as part of our overall focus on making investments in organizations that are strengthening rural supply chains," says Bindu Ananth, president, IFMR Trust.

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The IFMR Trust, through its investing arm, Drinking Water Network Enterprise, has also invested in a project for water purification being set up by [WaterHealth India Pvt. Ltd](#) , or WHI, a subsidiary of [WaterHealth International, Inc.](#) , which provides business solutions for accessing clean water.

"It is an interesting transaction in that we have provided a long-term loan of Rs20 crore to help WHI go from 20 water treatment plants to 300," says Ananth. WHI will pay 15% interest on the loan amount every quarter and when the project becomes profitable, it will share 20% of the profits with IFMR Trust. "This is a risk-reward formula devised by us that allows the entrepreneur access to risk capital without the attendant hook of ownership, while the investor gets his fair share of profits or reward," says Ananth, adding that entrepreneurs in the social sector typically lose out on large chunks of their equity ownership in the search for capital.

In the WHI project, IFMR co-invested alongside Acumen Fund India. "Co-investing is a very good model for social impact investing, it helps share best practices and it also allows us to share mistakes," says Ananth.

Acumen Fund India, too, has leveraged the co-investment model well by partnering with the government-owned [Hindustan Latex Ltd](#) to invest in [LifeSpring Hospitals Pvt. Ltd](#) . As of now, LifeSpring Hospitals runs six 20-30 bed hospitals in Hyderabad and coastal Andhra Pradesh. "We will add 10 more hospitals this year and finally hope to take it to a total of 30 such low-cost hospitals offering specialized maternity care," says Anant Kumar, chief executive officer, LifeSpring Hospitals, who expects his company to make profits as the volume of business increases with a greater number of hospitals.

In Bangalore, technology entrepreneur [Sridhar Mitta](#), former chief technology officer of information technology firm [Wipro Ltd](#) , and now the managing director of outsourcing firm [e4e Business Solutions \(India\) Pvt. Ltd](#) , has set up [NextWealth Entrepreneurs Pvt. Ltd](#) to help social enterprises access technology, capital and market contacts.

To begin with, NextWealth put in seed funding of Rs25 lakh in the [Masonic Blood Bank](#) in the North Arcot district of Tamil Nadu to upgrade its technology backbone and create compliance records. The target was to help this non-government organization transform from a not-for-profit model into a well-run enterprise that generates profits. The first step towards this goal is to increase volumes by first increasing the number of donors.

"The idea was to do something for the donor, so when he comes and donates blood he gets a full health check report for free," says Mitta. The service charges collected from a large number of customers are expected to generate higher revenues, making the venture profitable. "Once this efficiency comes in, the project will start making money," says Mitta.

Next on his list is an investment in a start-up that is developing stem cell therapy for blood cancer.

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In Hubli, a tier II city in Karnataka, the Deshpande Center for Social Entrepreneurship supports entrepreneurs who use the rigour of a for-profit business model to solve social problems. "We have already incubated four such entrepreneurs in areas ranging from employment for rural women, IT services for rural populations, water harvesting project and designing content management for non-profit companies," says Nishith Acharya, executive director, Deshpande Foundation. "We really do not yet know which model of social enterprise will take off. Remember, it took microfinance nearly 30 years to scale to the current level."

As more mainstream players begin to turn their attention to socially impactful investing, the lines dividing various models are set to blur. "All enterprises make a social impact, it creates employment. What greater social impact can there be?" says Bharati Jacob, partner, Seed Advisors Pvt. Ltd, an early-stage venture capital firm that co-invested alongside Aavishkaar in Vaatsalya. Clearly, in the business of doing good, there are no boundaries.

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