ON THE PATH TO SUSTAINABILITY AND SCALE

A STUDY OF INDIA'S SOCIAL ENTERPRISE LANDSCAPE

APRIL 2012

Intellecap
SHAPING OUTCOMES

ABOUT INTELLECAP

Intellecap works at the intersection of the private sector and development. It provides consulting and investment banking services driven by innovative thought processes, to business and development communities globally, helping them bring entrepreneurship solutions to development challenges at the Base of the Pyramid and beyond. Intellecap's interventions are designed to catalyze initiatives for both large corporates and social entrepreneurs in pursuit of rapid global development. Our footprint extends to several locations globally, and we service a prestigious global client base including development finance institutions, private sector investors, foundations, governments, and inclusive and social businesses.

The Knowledge & Insights practice at Intellecap adds value to the global development dialogue through publications and events of varying size and scale that help create a more integrated ecosystem for knowledge sharing.

For more information, please visit
www.intellecap.com

Supported By

The Rockefeller Foundation
IFC International Finance Corporation World Bank Group
G-20 SME Finance Challenge

ACKNOWLEDGEMENTS

The authors of this report wish to thank the Rockefeller Foundation and the International Finance Corporation. Without their support and funding, this research would not have been possible.

We also share our heartfelt thanks with all of the social entrepreneurs and senior social enterprise staff who took time out of their busy schedules to take part in our research. We are deeply indebted to this group of visionaries for sharing their knowledge and experience, which served as the foundation for this study.

A special thanks to Vineet Rai, Co-Founder and Chairman of Intellecap, Manju Mary George, Co-Founder, Nisha Dutt, Associate Vice President of Consulting, and Satish Pai, Vice President of Investment Banking, for sharing their insights and helping shape the direction of this research. We also express our gratitude for the feedback and knowledge shared by Srey Bairiganjan of New Ventures India.

Finally, we would like to thank the entire Intellecap team, and especially our Sankalp Forum colleagues, for their unfailing help with building our survey database and connecting us with countless social enterprises.

AUTHORS

Sarah Allen
Anar Bhatt
Usha Ganesh
Nisha Kumar Kulkarni

For more information about this report, please contact Usha Ganesh

Intellecap (Hyderabad)
5th Floor,
Building no 8-2-682/1
Next to Ohris, Road No 12,
Banjara Hills
Hyderabad – 500 034
INDIA

Phone: +91 40 4030 0200

Intellecap (Mumbai)
512, Palm Spring,
Beside D-Mart,Link Road,
Malad (West),
Mumbai – 400064,
INDIA

Phone: +91 22 4035 9222

HUMAN RESOURCE CHALLENGES IN THE INDIAN SOCIAL ENTERPRISE SECTOR

This report delves deep into the human resource challenges that social enterprises face. It draws data and insights from an online survey of social enterprises which garnered over 100 responses. These findings are further examined with in-depth qualitative interviews with over 50 social enterprises, sector enablers and impact investors.

Social enterprises, with their dual focus on financial sustainability and social impact, face a set of unique challenges. The report seeks to decode these challenges and deliver findings that might serve as triggers for the design of new, more effective methods of addressing human resource challenges in this space, and accelerate development of the social enterprise ecosystem.

INSIDE THE REPORT

- **Findings from the Online Social Enterprise Survey**
- **Finding the Social Intrapreneur –** discussing recruitment related challenges
- **Leveraging HR for Scale, Sustainability and Social Impact–** discussing capacity building challenges
- **Retaining Talent –** discussing attrition levels across hierarchical levels and ways to retain human resources
- **Addressing HR Challenges –** discussing way forward to ensure social enterprises build teams for scale

Download your free copy at www.sankalpforum.com today

or contact us at info@intellecap.com or +91 22 40359222 to receive your copy by email.

For further information on this report reach out to: kanika.kumar@intellecap.com | usha.ganesh@intellecap.com

CONTENTS

EXECUTIVE SUMMARY

Mission-driven businesses that improve the lives of the poor and generate a profit have only recently entered onto the world stage, but they have captured the attention of many who are looking for solutions to today's greatest development challenges. In India, these businesses have become a national phenomenon in less than a decade, with a robust ecosystem of supporting players growing up around them. Yet, little is known about these "social enterprises" collectively: their geographic and sector distribution, business structure, stage of development, financial viability and funding sources. By providing a review of the social enterprise landscape, we seek to equip all stakeholders invested in its growth with more robust information about the nature of India's social enterprises and their challenges. With the industry moving now from its infancy to its youth, the time is ripe to refine and strengthen its infrastructure of support. We hope this study's findings and resulting recommendations help achieve this end.

This report shares findings from an online survey and follow-up interviews of for-profit social enterprises (socents) operating in India across six sectors—agriculture, education, energy, healthcare, livelihood development and water/sanitation—that directly impact the quality of life for individuals at the base of the economic pyramid (BoP). Its results are taken from 95 survey responses and numerous interviews with a representative sample of enterprises. The findings shed light on the industry's size, structure, motives, financing, human resources, development stages, and common barriers to sustainability and scale. Below are the highlights of our findings.

India's social enterprises are a young but ambitious industry.

Nearly half of the enterprises have been operational for less than two years, yet their aspirations for growth are apparent in: 1) their overwhelming choice for the private limited company structure; 2) their aggressive pursuit of capital; and 3) their investments in building leadership teams early on in the enterprise life cycle.

The industry took off in 2005-06 and has grown dramatically since then.

Energy and agriculture have experienced the greatest growth in number of new enterprises over this timeframe, but health, livelihood development and water/sanitation have also witnessed growth. Education, on the other hand, appears poised for take-off.

Socents base their headquarters in India's metropolises but operate across the country.

The majority of socents establish their headquarters in major urban centers in the southern and western regions. At the same time, their collective operations reach across the entire country, including states with high levels of poverty and challenging business environments. Nearly 60% operate in at least one low-income state.

Most social enterprises target the BoP as consumers rather than as producers.

Nearly three-quarters of enterprises target individuals in the BoP as consumers of critical goods and services. The remaining socents incorporate small-scale producers into their supply chain and work to improve their productivity, quality of outputs and market linkages.

The majority of socents are small, reflecting the industry's youth, but not its potential.

Half of surveyed enterprises generate less than INR50 lakh (USD100,000)[1] in revenue annually while sixty-four percent have fewer than twenty employees. Nonetheless, a strong correlation exists between age and size, with turnover and staff size increasing over time.

Approximately two-thirds of enterprises

1 We have used an exchange rate of INR50 to USD1 for this report.

treat social motives as equally if not more important than profit motives.

This finding suggests that most social entrepreneurs are using business as a tool for achieving social impact rather than viewing social impact as a positive outcome that will result naturally from their business. The motives of younger enterprises, however, indicate a growing preference toward prioritizing profit over impact with the belief that this will lead to greater social impact over time.

More than one out of three enterprises report that they are in a growth stage.

Turnover amounts and growth rates indicate that not all of these enterprises are experiencing the rapid growth that attracts venture capital funding. It is a notable achievement, though, that they have refined their models to the point where expansion is possible. Approximately 50% of responding enterprises are in the pilot or start-up phases, and 12% are in a "steady state." This latter group is too old to be considered a start-up, but has encountered significant constraints to growth.

India's social enterprises are capital hungry businesses.

Only 7% report that they do not need any form of external capital currently. Equity is in highest demand across all growth stages, wanted by 78% of survey respondents, but there is also significant demand for grants and debt.

Grants from foundations, incubators, fellowships and competitions are a crucial source of capital for early-stage enterprises.

Beyond friends and family and personal funds, most early-stage enterprises rely primarily on these sources of grant capital, particularly at the pilot phase. Grant sizes tend to be small, so socents pursue a large number of them to meet their funding needs.

Finding and retaining good talent, raising capital, and building the value chain create the greatest barriers to sustainability and scale for social enterprises.

Despite the industry's growth, these challenges continue to be significant obstacles for many socents. Raising capital is a greater challenge for enterprises in the pilot and steady-state phase, while hiring and retention is a pressing issue across all stages, and especially for growth enterprises. Challenges related to building the value chain are most acute for enterprises in the pilot phase.

The greatest financing challenge is not a limited supply of capital but socents' limited access to it.

Socents report that they cannot secure available funding either because they do not meet investor requirements or because their business model needs further refinement before they are "investor ready." Very few enterprises cite a limited supply of capital as a key challenge to securing it. The prevalence of funding that is inaccessible to most socents indicates a gap between enterprise needs and investor expectations.

Despite the challenges, socents are making a major impact in India.

Nearly one-third of them are operating in more than 100 localities, and almost one-third are serving more than 50,000 BoP beneficiaries annually. While still operating on a relatively small scale compared to successful growth-stage businesses in India, this coverage is significant given the industry's youth and holds the potential for even greater impact in the future as it matures.

INTRODUCTION

Market-based solutions to poverty are transforming the face of development and spurring inclusive growth in India and the world over. They are connecting dairy farmers in Orissa to urban markets in Mumbai, bringing clean toilets to urban slums and reliable power to off-grid villages. As the limitations of government and NGO solutions to India's development challenges have become clear, the critical need for private-sector participation in building and scaling sustainable solutions has emerged. For-profit social enterprises driven by a clear social mission hold great potential for driving the delivery of these innovations.

While part of a global trend, India today is one of the world's largest breeding grounds for these mission-driven companies called "social enterprises" (socents). These socents are operating across sectors, regions and stages of development. Continuously innovating new and creative business models, they are including the poor into India's growth process as both consumers and producers.

In less than a decade, a rich and diverse ecosystem of supporting players has also developed to advance India's social enterprises. On the funding side, a broad mix of grant-makers, impact investors and now even commercial funds are channeling capital to the industry. Initially dominated by players from abroad, the number of domestic investors continues to multiply. Incubators, consultants and other sector enablers targeting social enterprises have also taken root in India and are now looking to scale themselves. Beyond helping accelerate individual enterprises, these sector enablers are strengthening the industry's infrastructure by developing online platforms for engagement, facilitating knowledge sharing and helping connect young enterprises with skilled human capital through fellowship programs. Universities have even begun to offer academic courses on social entrepreneurship, and independent organizations are raising awareness among university students about the industry and are providing opportunities to get involved.

Still, formidable obstacles stand between the industry and its success story. Social enterprises work in underdeveloped markets that often require innovation on multiple fronts from the very start. They target consumers who are initially skeptical of their motives and work with small-scale producers whose challenges the enterprise must assume as their own. Financial capital, at one point in very limited supply for socents, is still difficult for many enterprises to access. At the same time, a vast talent gap has replaced financing as the biggest barrier to enterprise growth. Very few socents outside of the microfinance sector have reached commercial scale, and many are still working just to prove business model viability. Nonetheless, the industry holds great economic and social promise. Mitigating these obstacles will help unleash this potential and further India's goal of inclusive growth.

OVERVIEW AND METHODOLOGY

This report seeks to complement earlier work examining India's social enterprises by providing a landscape review of the industry that is rooted in a survey of social enterprises and in-depth interviews.[2] We hope the findings will help a diverse group of supporting stakeholders better understand the depth and breadth of the field, as well as the primary barriers that socents face as they seek to scale. We address the report to all stakeholders who can encourage and strengthen enterprises' market-based solutions to improve the lives and livelihoods of India's poor. These include impact and commercial investors, grant-makers, incubators, consultants, industry organizations, academics and policymakers.

The ultimate objective of our study is to enable a diverse group of supporting stakeholders to provide better, more targeted assistance across the full range of enterprise needs in order to foster socents' development toward sustainability and scale.

2 These survey findings also informed two other reports on social enterprises authored by Intellecap: "Understanding Human Resource Challenges in the Social Enterprise Sector" for Potencia Ventures and "Success and Social Enterprises: Understanding Scale-Up & Commercial Success" for the Villgro Innovations Foundation.

To this end, we cover three main areas in the report:

LANDSCAPE OVERVIEW

This section explores the industry's breadth and depth through a broad range of topics including sector and geographic distribution, staff capacity, finances, social impact, stages of development and funding sources. It is based upon the survey results.

CHALLENGES TO SUSTAINABILITY AND SCALE

Here we examine in detail the primary challenges that enterprises face and review variations across stages of development. Both the survey results and follow-up interviews informed these findings.

RECOMMENDATIONS

Rooted in the study's findings, the concluding chapter presents our recommendations for how industry stakeholders can further encourage enterprise development.

The survey that served as the foundation for this report targeted for-profit social enterprises across six sectors that directly impact the quality of life for people at the base of the economic pyramid (BoP): agriculture, education, energy, healthcare, livelihood development and water/sanitation. We focused on social enterprises with a clear and explicit mission to create a positive impact on the lives of the poor in India, engaging with them either on the demand side of the business as consumers of critical goods and services, or on the supply side as small-scale producers who are part of the enterprise supply chain.

Drawing upon a wide variety of internal and external sources, we compiled a comprehensive list of enterprises that met these criteria. Distributing our online survey to this complete list, we received 101 unique responses from founders and core members of their leadership teams. Ninety-five of these were included in our final analysis after a second round of screening against our criteria. We supplemented these survey responses with interviews from a representative sample of respondents to delve deeper into the survey findings, particularly to discuss the barriers to scale and sustainability. We also interviewed representatives from a sample of investment funds, incubators, industry organizations and academic institutions prior to the survey to inform its content.

Through this research, we found that, while the socent industry is young and faces many obstacles to sustainability and scale, it is ambitious and up for the challenge. We hope that the findings and recommendations shared herein help investors, donors, sector-enabling organizations and policymakers to pave the way for social enterprise success.

WHAT IS A SOCIAL ENTERPRISE?

This study defines a social enterprise using the following criteria:

1. **For-profit:** They operate as independent businesses with the goal of generating a profit.

2. **Committed to social impact:** They have a clear and explicit mission to create a positive social impact.

3. **Base of the Pyramid (BOP) focus:** Business operations directly improve the lives and livelihoods of those residing at the BOP by:
   - Increasing access to critical goods and services for BoP consumers; or
   - Improving the productivity, output quality or market linkages for BoP producers.

4. **Critical-needs sector:** They operate in one of the following sectors that has a direct impact on the quality of life for individuals at the BoP: agriculture, education, energy, healthcare, livelihood development and water/sanitation.

LAY OF THE LANDSCAPE

A YOUNG BUT AMBITIOUS INDUSTRY

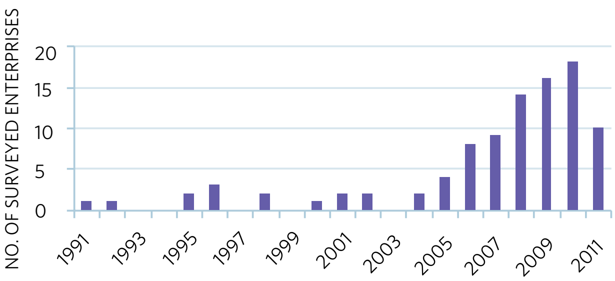
India's social enterprises are a young but fast-growing and ambitious industry.

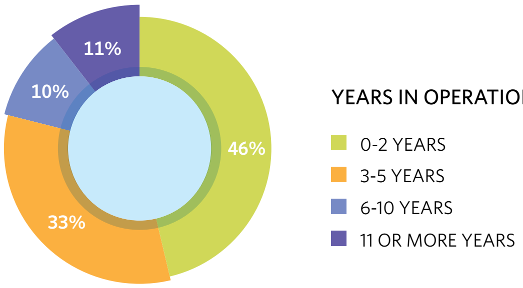
Fueled by an expanding pool of available capital, a maturing ecosystem of support and the scaling of a for-profit microfinance model, India's social enterprise industry has experienced noteworthy growth in less than a decade. Nearly half of the enterprises in our survey have been operational for less than three years, and nearly 80% launched operations in 2007 or later. The take-off appears to have occurred in 2005-2006, at a time when for-profit microfinance in India reached its peak. The microfinance model gave confidence to global investors and development practitioners in using market-based strategies to scale solutions for addressing the poor's needs and sparking inclusive growth. Despite questions raised around certain microfinance practices in India, confidence in the fundamental concept of channeling market forces to address development challenges has persisted.

From our survey, it appears that the industry continued to grow straight through the global recession, likely in part due to the cooling of enthusiasm for microfinance. Many investors who entered the social sphere to tap into the microfinance opportunity have expanded or even refocused their investment strategies to target social enterprises in other critical-needs sectors, such as clean energy, education and healthcare. The apparent drop-off in our sample of enterprises founded in 2011 likely reflects the challenges of identifying such early-stage enterprises that are just beginning operations rather than an actual decline in growth.

Multiple indicators demonstrate the industry's aspirations for growth and are discussed in greater detail below. These indicators include the overwhelming preference for the private limited company structure, large appetite for financial capital, plans for growth and investments in building leadership teams early in the enterprise's life cycle.

LAUNCH YEAR



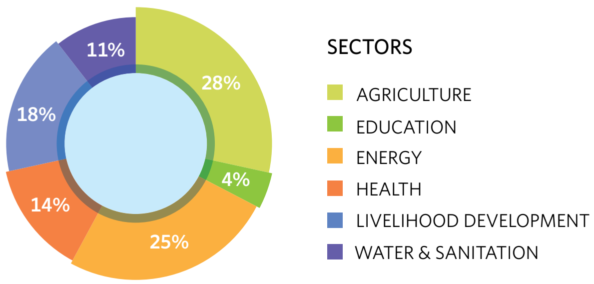


THE SECTORS

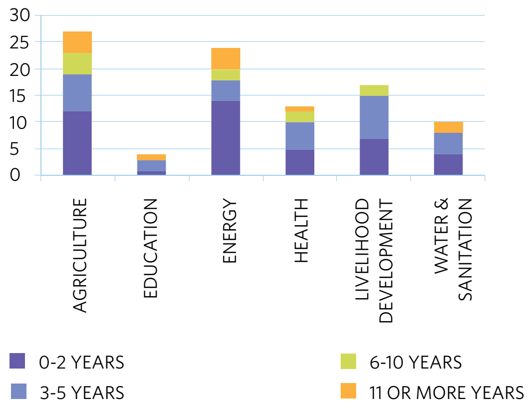
Social enterprises are operating across the spectrum of critical needs sectors with the greatest concentration in agriculture and energy.

Twenty-eight percent of surveyed enterprises are in agriculture while 25% are in energy. These sectors claim the most enterprises that have been operational for six or more years. Agriculture and energy also have a large portion of younger enterprises, with 44% and 60% in each respective sector launching in 2010 or 2011. In fact, energy experienced the greatest growth in the number of social enterprises established in any sector over the last two years, according to our survey. This likely reflects the broader growth in the renewable energy sector, which has received a major boost in recent years from generous inflows of public and private funding, increased media attention and supportive regulatory changes that have made it faster and cheaper to set up renewable energy infrastructure. Energy social enterprises operate in areas that are off the electricity grid or have unreliable access to it. They use renewable energy technology with an emphasis on solar and biomass. Their products can be divided into three main categories: 1) devices that meet basic energy needs, such as lighting and cooking; 2) household energy systems; and 3) power generation and delivery to off-grid or underserved communities, often through the conversion of waste to energy.

Agriculture, which provides livelihoods to more than 70% of India's rural population, suffers from drastic inefficiencies across the entire value chain. This presents a clear opportunity and a compelling business case for entrepreneurs seeking to improve the lives of the rural poor. Social enterprises in the sector are working to eliminate these inefficiencies by supporting small-scale farmers in pre- and post-harvest operations. Dairy farming and organic farming, in particular, are gaining traction among social enterprises. In the pre-harvest space, enterprises help increase the quality and size of agricultural yield by providing access to quality inputs, equipment, financing and other advisory services; collectivizing small-holder farmers; teaching ecologically sound farming practices; and facilitating access to organic certification. On the post-harvest side, enterprises seek to eliminate supply chain inefficiencies and typically do so by incorporating small-scale farmers into their own supply chains. These enterprises oversee procurement, storage, transport, processing and retailing. Through their economies of scale, post-harvest enterprises ensure that farmers receive a greater profit for their final output than they would if they sold directly to local markets.



YEARS IN OPERATION BY SECTOR



Livelihood development enterprises promote non-farming livelihood activities and comprise the third largest sector for social enterprises.

Eighteen percent of surveyed enterprises fall into the livelihood development sector. These enterprises focus on skills development and improving access to markets. They can be broadly classified as product-based or service-based. The former would include enterprises that support artisans making traditional handicrafts, while the latter would include enterprises that train and employ high-school dropouts to provide back-office services to large corporations. In both cases, the target beneficiaries–the artisans and high-school dropouts—are incorporated into the supply chain. Product-based enterprises provide pre- and post- production support to small-scale producers, namely artisans. Their operations have much in common with agricultural enterprises working with small-scale farmers. Pre-production, they offer access to quality inputs, equipment, financing and training. Post-production, they improve market linkages through procurement, storage, transport and retail. The operations of service-based enterprises focus on providing structured training and employment to underemployed groups. Rural business process outsourcing (BPO) centers and rural tourism have both emerged as popular service-based models among livelihood development socents.

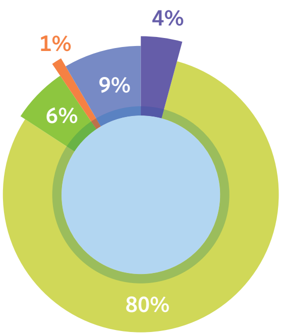
Education has the smallest proportion of social enterprises, but the sector has attracted much attention recently and appears poised for future growth.

Education enterprises represent only 4% of survey respondents, but the sector is likely to grow substantially in the future. A huge gap exists between the supply and demand of quality education for India's youth, and the nation's continued growth depends in large part upon filling this chasm. Due to the poor quality of education in government-run schools, a growing number of students, including those in the BoP, are turning to the private sector. Recognizing the limits of its resources, the government has shown a growing openness to more private-sector participation. Privately-owned vocational training programs and affordable private schools (APS) for the poor have become increasingly common as a result. The test preparation and coaching business has also grown in recent years, but targets higher income segments. Despite the rise of these private education forms, however, regulatory obstacles still stand in the way of the sector's take-off. For instance, all formal education institutions are required to operate as not-for-profits, thereby restricting equity investment in the space and causing most APS's to assume hybrid for-profit/nonprofit structures. The much-debated passage of the 2009 Right to Education Act may harm affordable private schools with its rigid and expensive requirements laid down for all non-government schools. Nonetheless, the sector has attracted much attention recently from impact and commercial investors alike, who anticipate that the huge demand for quality education will force the growth of private-sector participation and the regulatory changes needed to enable it.

Eighty percent of enterprises in our survey are PLCs, while only 10% are Partnerships or Proprietorships.[3] This is in stark contrast to the legal structures for the broader category of micro and small to medium enterprises (MSMEs) in India.[4] While virtually all of the enterprises in our survey would qualify as MSMEs, their structures set them apart: 90% of MSMEs are structured as proprietorships, & only 3% are PLCs. While they involve more red tape to incorporate and operate, PLCs offer notable advantages to growth-oriented businesses over the proprietorship or partnership structure. In particular, PLCs find it easier to raise capital from multiple sources & to transfer ownership, which allows for faster growth and ensures continuity beyond the founder's involvement.

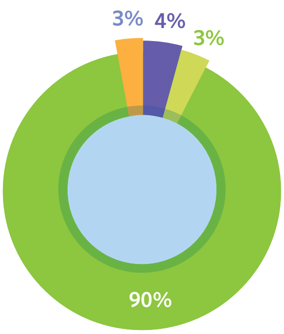
LEGAL STRUCTURES

Social enterprises overwhelmingly structure themselves as Private Limited Companies (PLCs), revealing their intentions for growth.



LEGAL STRUCTURE OF SOCIAL ENTERPRISES

- PARTNERSHIP
- PRIVATE LIMITED COMPANY
- PROPRIETORSHIP
- PRODUCER COMPANY
- HYBRID



LEGAL STRUCTURE OF MSMEs

- PARTNERSHIP
- PRIVATE LIMITED COMPANY
- PROPRIETORSHIP
- OTHER

SOURCE: MSME Annual Report 2011

Despite its alleged advantages for small-scale producers, the Producer Company structure has not caught on among social enterprises.

Established in 2002, this legal form is an alternative to the cooperative model common in the agriculture and livelihood development sectors. It provides a for-profit model for aggregating producers that gives the producers full ownership over the company so that they benefit directly from the company's profits. The response from social enterprises has been limited, however, because the structure does not allow for external equity, and as a result restricts growth. As an alternative to this structure, some enterprises that work with low-income producers have registered as PLCs, but have granted the producers a significant stake in the company to ensure that they benefit from the company's success.

3 A proprietorship is a business owned fully by a single person who has unlimited liability for the business, and sole control of profits and decision-making. Partnerships are owned by two or more person where at least one person has unlimited liability, and profits and decision-making authority are shared among the owners. A Private Limited Company is an independent legal entity with between two and 50 shareholders who have limited liability in the company.

4 MSMEs are classified into 'micro,' 'medium' and 'small' based on the enterprise's initial investment in plant and machinery/equipment. In the manufacturing sector: Micro: < INR 25,00,000; Small: INR 25,00,000 – 50,00,000; Medium: INR 50,00,000 – 100,00,000. In the service sector: Micro: < INR 10,00,000; Small: INR 10,00,000 –20,00,000; Medium: INR 20,00,000 – 50,00,000.

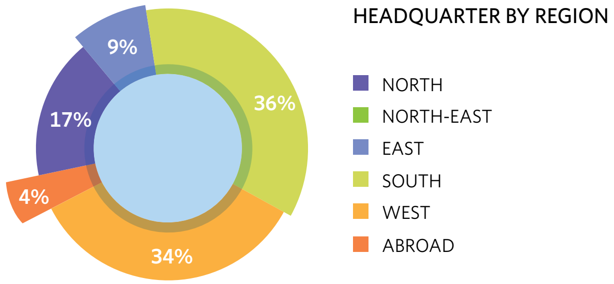
Hybrid for-profit/nonprofit structures are growing in popularity among social enterprises.

In the hybrid structure, a for-profit entity is responsible for core business operations while a sister nonprofit organization provides support services (e.g., impact measurement, market education and employee training) that benefit the business and community without contributing directly to the bottom line. The model is gaining traction among socents. With one exception, all of the hybrid entities in the survey began operations in 2008 or later, and several entrepreneurs whose enterprises are currently structured as PLCs shared their plans to establish a sister nonprofit during interviews. The hybrid model likely appeals to social enterprises because it can enhance their ability to fundraise, since investors and donors are often skeptical about grants and equity flowing to the same entity. Socents may also desire to separate the purely social functions from the business in order to maximize their financial return.

GEOGRAPHIC DISTRIBUTION

Three-quarters of social enterprises locate their headquarters in southern or western India, but more than nearly 60% also operate in regions with more challenging business environments, including low-income states.[5]

Enterprise headquarters for 75% of survey respondents are concentrated in just five states: Maharashtra, Karnataka, Andhra Pradesh, Delhi and NCR, and Tamil Nadu. Furthermore, 70% of these enterprises are based in the major metropolitan areas of these states: Mumbai, Bangalore, Hyderabad, Delhi and Chennai. Large metros generally provide better access to human and financial capital, infrastructure and networks than can be found elsewhere. Many entrepreneurs reported in interviews that they were born and raised in the cities that now house their headquarters. As a result, they are familiar with the cultural context and language, have strong contacts in the region and often feel compelled to make a social impact close to home. Despite the strong bias toward urban centers and higher income states for headquarters, however, socents do not limit their operations to these areas. Many entrepreneurs report in interviews that they initiate operations in their headquarters state, which may not have the greatest need or most appropriate market for their socents' services, but provide a more familiar context. Yet, when socents decide to expand, they often move into regions where the need is greater, despite the fact that the operating environment is more challenging and less familiar. A look at India's low-income states reveals this pattern. While these seven states (Bihar, Chhattisgarh, Jharkhand, Madhya Pradesh, Orissa, Rajasthan and Uttar Pradesh) collectively house only 13% of socent headquarters, all but two of the states are home to operations for roughly one out of five enterprises. Nearly 60% of enterprises have a presence in at least one low-income state.



5 As identified by the United Nations Development Program.

PERCENTAGE OF ENTERPRISES BY STATES OF OPERATION

- 45–36%
- 35–26%
- 25–16%
- 15–6%
- 6–1%

HEADQUARTER LOCATION

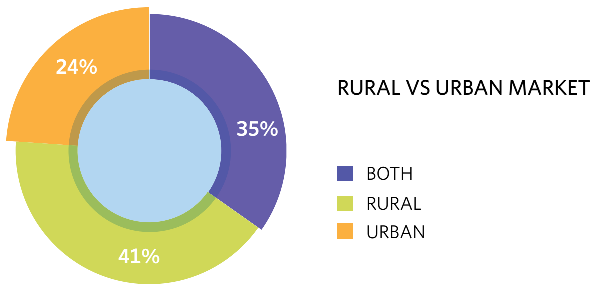
NO. OF ENTERPRISES

13 CITY NAME

STATES OF OPERATION	NO. OF ENTERPRISES	%. OF ENTERPRISES
Andaman and Nicobar	1	1%
Andhra Pradesh	29	31%
Arunachal Pradesh	5	5%
Assam	10	11%
Bihar	18	19%
Chandigarh	4	4%
Chhattisgarh	7	7%
Dadra and Nagar Haveli	1	1%
Daman and Diu	1	1%
Delhi and NCR	17	18%
Goa	11	12%
Gujarat	26	27%
Haryana	9	9%
Himachal Pradesh	5	5%
Jammu and Kashmir	5	5%
Jharkhand	9	9%
Karnataka	31	33%
Kerala	14	15%
Lakshadweep	1	1%
Madhya Pradesh	18	19%
Maharashtra	43	45%
Manipur	2	2%
Meghalaya	5	5%
Mizoram	4	4%
Nagaland	3	3%
Orissa	22	23%
Puducherry	6	6%
Punjab	11	12%
Rajasthan	31	33%
Sikkim	5	5%
Tamil Nadu	26	27%
Tripura	4	4%
Uttar Pradesh	20	21%
Uttarakhand	11	12%
West Bengal	15	16%

The vast majority of social enterprises target rural markets.

Forty percent of enterprises in our survey only operate in rural markets, while another 35% target rural and urban markets. This finding is not surprising given that 70% of India's poor live in rural areas. Rural markets have historically been overlooked by most traditional businesses, but many now view them as untapped sources of business opportunity. Yet, poor infrastructure and inefficient supply chains, as well as low population density and education levels, continue to make these markets very challenging operating environments. The intense focus on rural areas is thus an important distinction between social enterprises and more traditional businesses, where the challenges of operating in rural markets combined with the density of urban markets create a bias for targeting cities. As a result, social enterprises hold significant potential for bringing critical goods and services to these underserved areas, as well as for providing a vital source of employment in regions where stable, salaried jobs are very difficult to find.

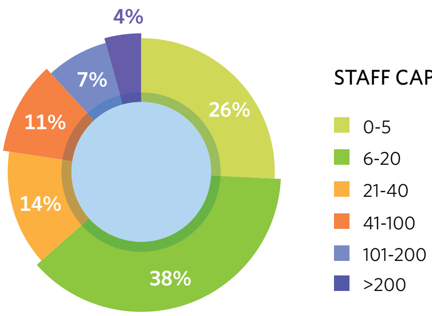


STAFF CAPACITY

Social enterprises have small teams of staff.

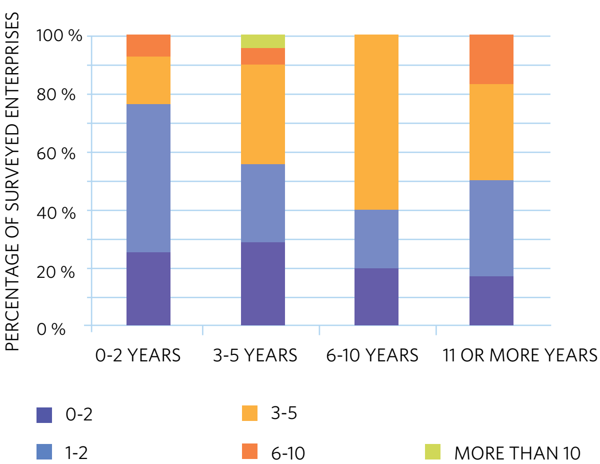
Sixty-four percent of surveyed enterprises have 20 or fewer employees, and one-quarter have five or fewer. Only 4% of enterprises have more than 200 staff members. To an extent, this appears to reflect the industry's youth. Staff size does increase over time as socents grow. Beyond the healthcare sector, however, even more established enterprises continue to have small teams, relative to traditional businesses. This trend may reflect the challenges that enterprises face in hiring, which leads them to have smaller teams than desired. Looking across sectors, healthcare enterprises have the largest staff size while energy has the smallest, even after controlling for enterprise age.

STAFF CAPACITY



Socents invest in leadership capacity early in their development.

LEADERSHIP TEAM EXPANSION BY ENTERPRISE AGE



Despite the small staff size of most enterprises, three out of four have expanded their leadership beyond the core founding team, which tends to be comprised of just one or two people. Among enterprises that are in the first two years of operation, 75% have added at least one new member to their leadership team, while over 20% have added three or more.

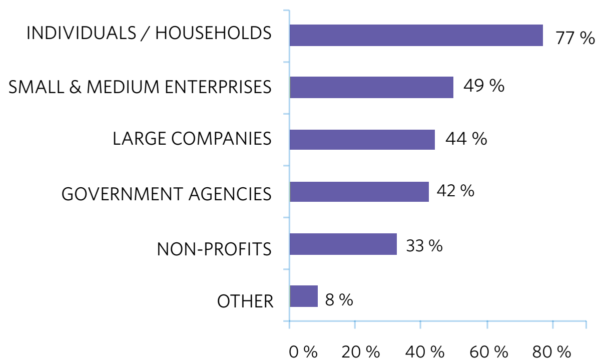
Particularly since enterprises find these positions the most difficult to hire for, this trend suggests that they have ambitious plans to grow the business and are working to establish a solid foundation for future growth and organizational development.

THE CUSTOMERS

Three-quarters of social enterprises target individuals and households as the customers for their goods and services.

Many enterprises also have institutional, nonprofit and SME customers, but individual consumers are by far the most popular customer type for social enterprises. According to our survey, energy and water/sanitation enterprises are the most likely to sell to individual end-users. Nearly one out of five enterprises from the survey targets only individual consumers, and roughly one-third of these are energy enterprises. This focus on selling to individuals and households reflects the social mission of the enterprises to provide the poor with access to critical goods and services. This fact also underscores the extent to which social enterprises as an industry encounter last-mile delivery challenges as they try to reach end-users in hard-to-reach markets.

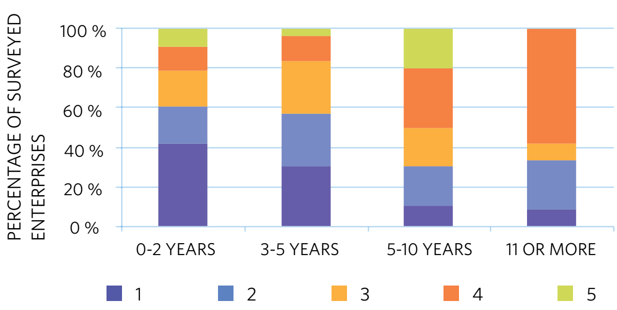
CUSTOMER TYPES



Most enterprises target more than one type of customer, and the number of target customer types tends to increase as enterprises mature.

Only 30% of enterprises sell to a single type of customer. Of these, the vast majority sells only to individuals and households, while none sell only to government agencies or nonprofits. Enterprises with a single target customer type also tend to be younger: 42% of enterprises operating for less than two years sell only to one type of customer. As enterprises age, they expand into new customer types. Only 10% of enterprises operating between six and 10 years serve a single customer type. At the same time, the percentage of enterprises targeting four or more customer types increases from 21% to 50% over the same timeframe. This shift suggests that expanding into new customer types is an important growth strategy for socents. The diversification may also create greater stability in the business, particularly through the addition of government and corporate contracts as a supplement to individual sales.

NUMBER OF CUSTOMER TYPES BY AGE

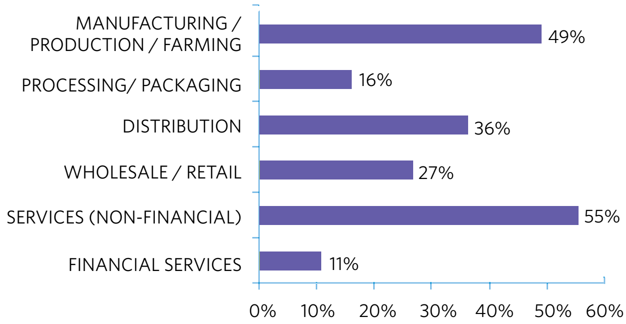


OPERATIONS ACROSS THE VALUE CHAIN

Socents provide services and produce goods at almost equal rates.

Fifty-five percent of the surveyed enterprises are engaged in the provision of non-financial services, while just under half are engaged in manufacturing or farming. Sixteen percent are engaged in both service provision and goods production. The services range from providing the poor with education and healthcare to maintaining public toilets, offering repair services for clean energy products and training small-scale producers in new farming or production techniques. Service providers are

OPERATIONS ACROSS THE VALUE CHAIN



most prevalent in the education, health and water/sanitation sectors, with at least 75% of enterprises across each of these sectors offering a service to the poor. Even in agriculture where production dominates, one-third of enterprises provide some kind of service to farmers, such as teaching organic farming practices. More than 10% of enterprises also offer financial services to low-income clients or producers–primarily access to credit. Limited cash flow impedes the purchase of critical goods and services for consumption and production purposes among the BoP. To address this challenge, some social enterprises establish partnerships with financial institutions while one out of ten try to fill this gap directly.

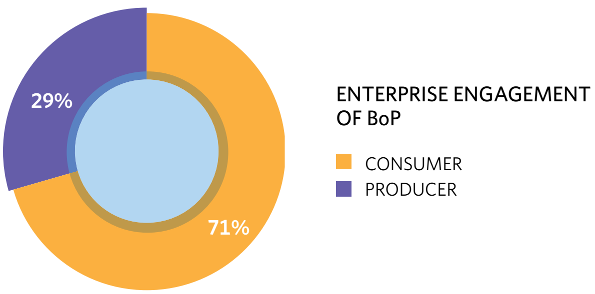
Half of the respondent social enterprises operate in more than one part of the value chain.

Given the youth and smaller size of most socents, a surprisingly large portion of enterprises have operations across multiple parts of the value chain, from manufacturing, processing and distribution to sales and servicing. This fact reflects the challenging context of the BoP market and the necessity of filling in gaps across a fragmented value chain in order to succeed. Interviews indicate that entrepreneurs see profitable business opportunities in addressing many of these gaps, but at times must begin operations in a new area purely out of necessity to support the rest of the business. For instance, many socents began the complex operation of offering loans to customers not because of the profit potential, but because they saw no better alternative for providing customers with reliable access to credit and, without it, the target market could not afford their product.

Enterprises in healthcare and education, which are focused primarily on service provision, are the least likely to be involved in more than one part of the value chain. Most of these enterprises are exclusively service providers, with few healthcare enterprises focusing instead on manufacturing products for the BoP market, such as low-cost maternal healthcare kits and transportable incubators for vulnerable newborns. On the other hand, energy and agriculture enterprises are the most likely to operate across multiple parts of the value chain with 25% and 40%, respectively, involved in more than one area. Interestingly, there does not appear to be a causal link between enterprise age and operations across the value chain: older enterprises are no more likely to work across the value chain than younger enterprises, despite many enterprises reporting in this study that expansion into new areas of the value chain is part of their growth strategy.

BOP ENGAGEMENT

Most social enterprises target the BoP as consumers rather than as producers.



Social enterprises can be classified on the basis of whether they target individuals on the demand side of their business as consumers of goods and services, or on the supply side as small-scale producers who are part of the enterprise's value chain. Seventy-one percent of surveyed enterprises fall into the former category. These "consumer" enterprises improve access to affordable, high-quality goods and services for BoP consumers across all target sectors, including primary education and vocational training, basic and maternal healthcare, clean water and sanitation facilities, as well as solar lighting and efficient cook stoves. For agriculture and livelihood development, these enterprises provide small-scale producers with goods or services, such as quality inputs, more efficient equipment or advisory services, and do not incorporate them into their supply chain. Many of these consumer enterprises also provide jobs to individuals in the BoP—often as sales agents working within their local communities—but the primary focus and source of revenue generation for these enterprises is the provision of goods or services to the poor.

"Producer" enterprises are those that engage with small-scale producers on the supply side of the business. They focus on improving the livelihoods of individuals in the BoP by increasing the productivity, output quality and market linkages for small-scale producers. This goal is achieved through the dual strategy of providing a range of capacity-building services to producers and incorporating them into the enterprise value chain. These services can include any combination of training, certification, access to quality supplies, testing equipment, processing facilities and financing for working capital needs. These enterprises operate in the agriculture and livelihood development sectors, although not all enterprises in these sectors are producer-focused. Unlike consumer enterprises whose target market is the BoP, producer enterprises typically target higher socio-economic classes or other businesses as their end-users.

Producer enterprises employ three common models for providing capacity-building services to small-scale producers: direct delivery by the enterprise, delivery through a sister NGO, and partnerships with existing providers.

The complexity of enterprise operations in each of these approaches varies significantly depending on the degree of engagement with producers. The first model, in which the enterprise is responsible for building producers' capacity as well as running the business, undoubtedly requires the most complex operations for the enterprise. As a result, enterprises providing these services directly likely need more time to test and refine their model. These enterprises cite the importance of securing what Acumen Fund calls "patient capital" due to the long gestation period of working across the full production cycle. Establishing a sister NGO for this role shifts these challenges, but often the nonprofit arm provides little more than a legal shell for these operations, particularly among nascent enterprises. Responsibility for developing and implementing the services fall to enterprise staff. When partnering with existing providers, which could be NGOs, universities or government agencies, the socent typically has very limited engagement with small-scale producers. Instead, the socent focuses on marketing, sales and distribution to higher-end consumers, while still playing a vital role in sustaining the capacity-building process by providing a reliable market for the products. While the simplicity and clear division of labor of the partnership model may suggest greater profit potential, scaling can be a challenge when a grant-or government-funded entity plays such a vital role in the production process. If the enterprise expands into new geographies where its partner does not operate, it must continuously search for new organizations to fill the gap. Thus, each model has trade-offs, and further research is required to understand the social and economic implications of each model.

TYPE	BOP ENGAGEMENT	VALUE TO BOP	SECTORS	TARGET MARKET
Consumer	As consumers of critical goods and services	Improved access to critical goods and services that are high quality and affordable	All	Rural and Urban BoP
Producer	As small scale producers incorporated into the enterprise's supply chain	Improved livelihood through increased productivity, quality of outputs and increased market linkages	Agriculture, Livelihood Development	Urban middle and upper class, export markets

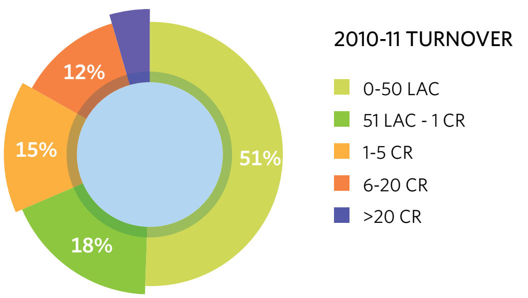
PROFIT AND IMPACT

A FINE BALANCE

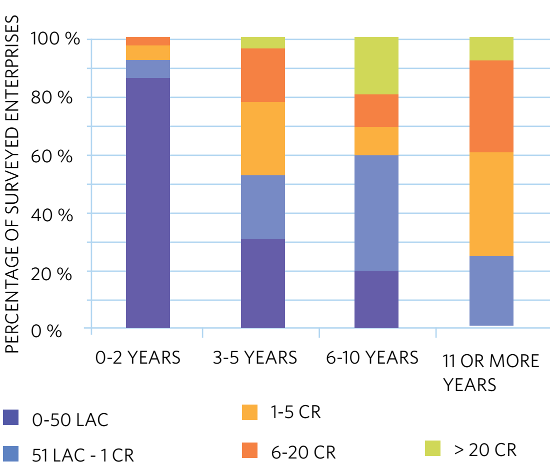
FINANCIAL SUSTAINABILITY

The majority of social enterprises have a modest turnover, primarily reflecting their youth.

Fifty percent of surveyed enterprises generate less than INR50 lakh (USD100,000) in annual revenues, while only 4% generate more than INR20 crore (USD4 million). A strong relationship exists, however, between turnover and enterprise age with average turnover increasing over time. Seventy-eight percent of enterprises generating less than INR50 lakh annually have been operational for less than six years. This small size of young socents likely reflects the longer timeframe needed for them to build viable business models for underdeveloped markets. It also points to challenges they face in raising seed capital.



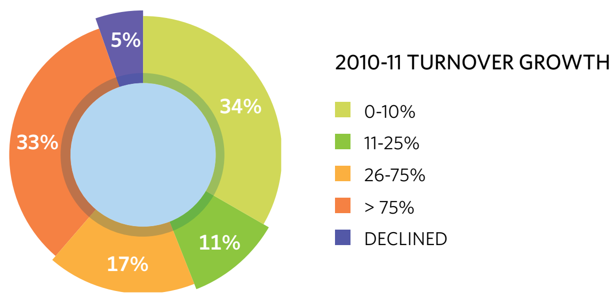
TURNOVER BY ENTERPRISE AGE



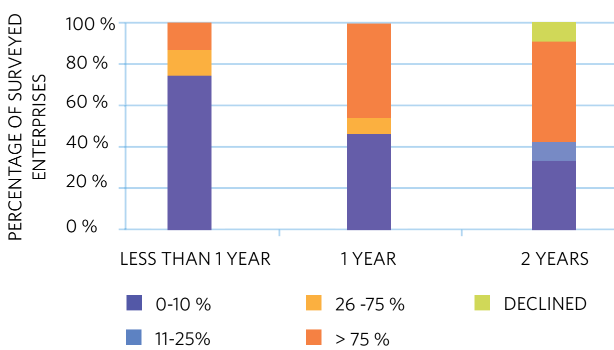
Enterprises are growing in size over time, yet even older enterprises are still relatively small. For instance, six out of ten enterprises that have been in operation for 6-10 years are still turning over less than INR1 crore annually. This could indicate greater challenges and less support in the landscape, as well as more modest growth ambitions of the earlier generation of enterprises that lengthened their growth trajectory. Enterprises launched in the last five years –which constitute three-quarters of the survey sample–have undoubtedly benefited not only from the experiences of these early industry peers, but also from the growing amount of technical assistance and later-stage funding available. These developments combined with a trend toward profit over impact motives (discussed later in this report) will likely result in more enterprises with higher turnovers in the future.

Enterprises report varied revenue growth rates that correspond to age and turnover.

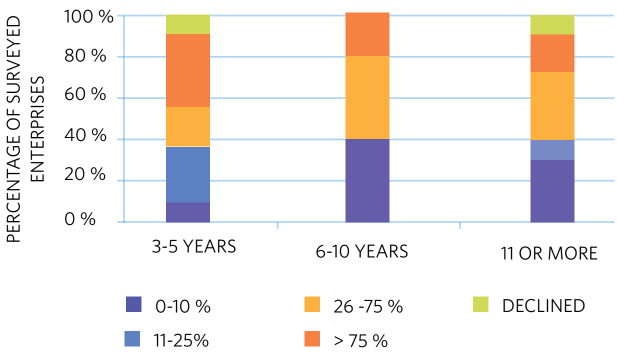
One-third of surveyed enterprises reports strong annual revenue growth of more than 75% in 2010-11. Another one-third reports a very modest growth rate of 0-10%. As with total turnover, there is a relationship between age and growth rate, although this one is more nuanced. Growth appears to start off slow: more than 75% of enterprises with less than one year of operations experience growth of 0-10%. Growth then picks up dramatically in the first and second years, with approximately

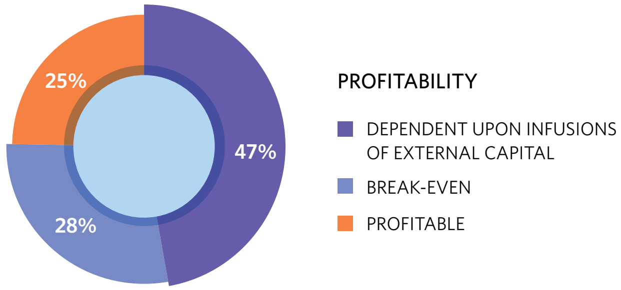


TURNOVER GROWTH BY ENTERPRISE AGE (0 - 2 YEARS)

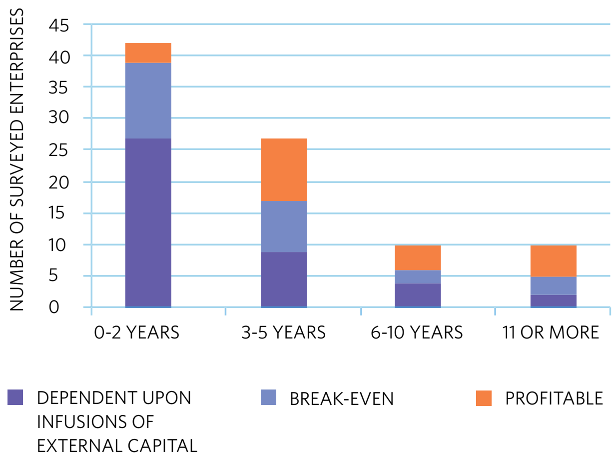


TURNOVER GROWTH BY ENTERPRISE AGE (3 YEARS AND UP)





PROFITABILITY BY SOCENT AGE



50% of one and two year-old enterprises reporting growth of 75% or more. Yet these enterprise tend to be growing from a very small base, thus the extent of their growth is exaggerated. Among 3-5 year enterprises, only 25% of enterprises report this level of dramatic growth, and it tapers off further for enterprises more than six years old. Reports from interviews also indicate that few socents are experiencing rapid growth consistently over several years. It can be deduced, then, that this snapshot of self-reported growth over a single year does not capture the volatility that many enterprises experience in their revenues. Particularly in the early years, revenue can fluctuate dramatically due to a host of strategic and operational challenges as enterprises refine their models.

More than half of the surveyed social enterprises are financially sustainable.

One-quarter of respondents report being profitable, while another 28% report that they are breaking even. As with total revenue and revenue growth, profitability is closely linked to enterprise age in our survey results. Sixty-five percent of enterprises that are dependent upon infusions of external capital have been operational for 0-2 years, while 85% have been operational for less than six years. Over time, an increasing proportion of enterprises in operation reach break-even and profitability. This trend is not surprising, as for-profit entities that continue operating at a loss year after year will eventually have to shut down. This reality highlights an important advantage of for-profit social enterprises over nonprofits: if the enterprise cannot develop a viable business model with sufficient demand and sustainable pricing, the market will eventually force them to exit, while the same organization–if structured as a nonprofit-could continue operating on grant funding for decades.

SOCIAL IMPACT

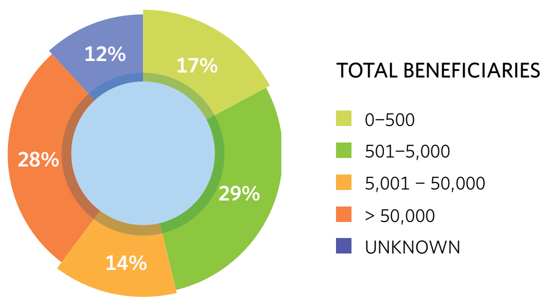
Social enterprises are employing multiple strategies to create an impact at the BoP.

Social enterprises are most often acknowledged for their potential to scale the provision of vital goods and/or services to the poor at an affordable price, filling gaps in the market that have been left by the government, NGOs and traditional businesses. Our survey results indicate that while this is the most common impact strategy, enterprises seek to benefit the BoP in other ways as well, and most employ multiple strategies to achieve their goals. Of the survey respondents, 51% seek to generate employment opportunities in underserved areas, 22% strive to improve natural resources used by the poor and 36% seek to improve the livelihoods of low-income producers. Further, over half of surveyed enterprises are employing more than one of these strategies.

IMPACT STRATEGIES	PERCENTAGE OF ENTERPRISES
Providing a critical good or service at an affordable price	64%
Generating employment opportunities in underserved areas	51%
Improving livelihood for low-income producers by enhancing productivity or market linkages	36%
Conserving or restoring natural resources that impact the poor directly	22%

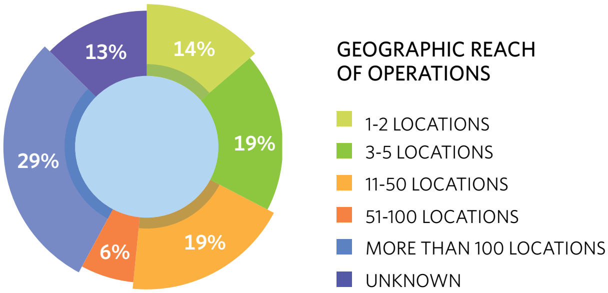
More than 25% of enterprises serve over 50,000 beneficiaries at the BoP annually.

These beneficiaries include BoP consumers and small-scale producers. Education, healthcare, and water have the greatest proportion of enterprises with 50,000 or more BoP beneficiaries. Agriculture and livelihood, on the other hand, have the lowest proportion of enterprises working with 50,000 or more BoP beneficiaries because many of these socents are producer enterprises supporting small-scale producers in their supply chain. Producer enterprises must reach significant scale in order to work with such a large number of producers, whereas a mid-sized education or healthcare firm can reach 50,000 consumers through strong distribution channels. Not surprisingly, the number of beneficiaries served annually generally increases with enterprise age.



Nearly one-third of enterprises operate in more than 100 locations.

This trend correlates strongly across sectors and seems to reflect the push/pull nature of the products or services provided rather than the maturity of the enterprise. The vast majority of enterprises operating in more than 100 locations are in the energy and agriculture sectors, while at least half of healthcare enterprises operate in 10 or fewer locations. Considered with the above finding, this indicates that agriculture and energy enterprises tend to have low penetration across many communities, while healthcare enterprises reach a much larger number of BoP beneficiaries but are concentrated in far fewer localities. Offering a "pull" product in the form of critical healthcare services, healthcare enterprises are able to attract clients from a much larger radius than can energy or agriculture enterprises. For these types of enterprises selling "push" products where the consumer must often be convinced of a product or service's value, the enterprise must travel to the consumer to increase ease of access and the likelihood of a sale. Energy and agriculture enterprises also require much smaller investments to expand into new areas than infrastructure-intensive healthcare enterprises, increasing their ability to go directly to the consumer.



THE BALANCING ACT

Roughly two-thirds of enterprises treat the social motive as equally if not more important than the profit motive.

Approximately one-third of survey respondents prioritize maximizing social impact over profit maximization. As for-profit entities, these "Impact First" enterprises strive to be financially sustainable and to make a profit, but will accept lower profit margins for greater impact. Another one-third seeks to maximize both profit and impact, but must make occasional compromises for one goal over the other. The last one-third of socents prioritizes profit over impact. The vast majority in this last category, "Profit First" enterprises, believes that a profit-maximization thesis will ultimately lead to greater impact. This is in contrast to the very small "Pure Profit" minority that strives to make social impact only when it enhances profitability.

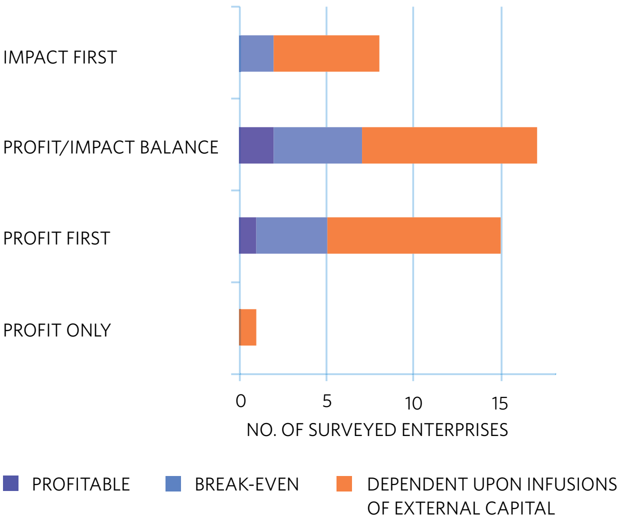
These findings suggest that most social entrepreneurs are using business as a tool to achieve social impact rather than viewing social impact as a positive outcome naturally derived from business. Much debate has occurred in the field over which approach will bring greater benefits to the BoP in the long-run, but most later-stage investors–social and commercial–prefer the profit-first model. They tend to believe that the social outcomes should be baked into a business model such that an enterprise can operate on pure profit motives to maximize both profit and impact in the long run. Underlying this philosophy is the assumption that profit and impact goals will never conflict with each other.

BALANCE BETWEEN PROFIT AND IMPACT	
Impact First: We prioritize maximizing social impact over maximizing profit.	34%
Impact/Profit Balance: We strive to maximize both, but sometimes have to make difficult decisions that compromise one or the other.	35%
Profit First: We prioritize maximizing profit, because we believe that this is the best way to maximize social impact in the long run.	27%
Pure Profit : We prioritize maximizing profits and strive to make a social impact when it enhances profitability.	4%

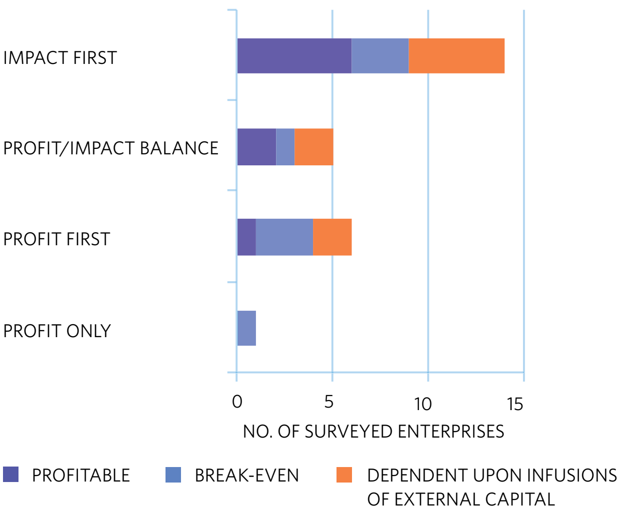
Impact First enterprises are reaching profitability.

Impact First enterprises may take longer than Profit First or Profit/Impact Balance enterprises to reach profitability, but many do achieve this goal. From our survey, six of the fourteen Impact First enterprises between three and five years were profitable, and another three were break even. This actually represents a higher proportion of profitable enterprises at this age than among the Profit First group. The sample size at this level of analysis is too small to draw any conclusions, however, particularly since the majority of Profit First enterprises are within their first two years of operation. Nonetheless, the survey findings suggest that Impact First enterprises are growing into self-sustaining businesses.

PROFITABILITY AT 0-2 YEARS



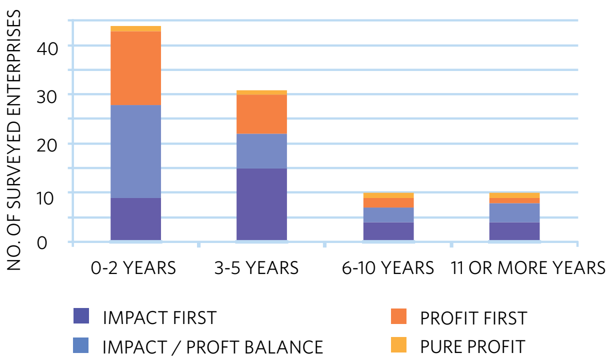
PROFITABILITY AT 3-5 YEARS



The motives of younger enterprises suggest a trend toward prioritizing profit over impact.

The proportion of Impact First enterprises has dropped from 48% among 3-5 year old enterprises to 20% among 0-2 year old enterprises. At the same time, the proportion of Profit First enterprises has increased from 26% to 34%. The shift may reflect the growth of later-stage funding available in the space and the preference among these investors for profit-first enterprises. Indian society's growing acceptance of combined profit and social impact motives may also be a contributing factor.

PROFIT / IMPACT MOTIVES BY ENTERPRISE AGE

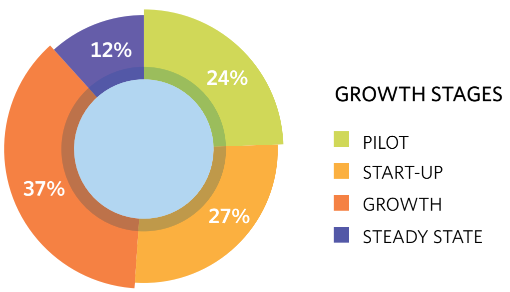


ENTERPRISES ACROSS THE GROWTH CYCLE

GROWTH STAGES

More than one out of three enterprises reports that they have reached a growth stage.

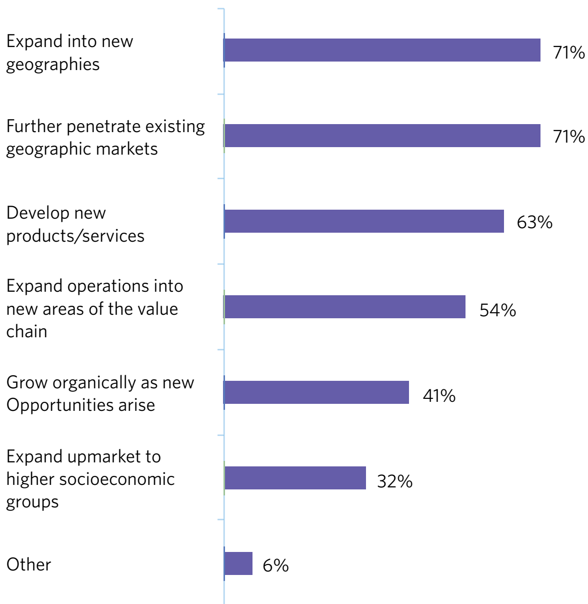
When asked to identify which stage of development best describes their enterprise, 37% of respondents selected growth. While the turnover amounts and growth rates indicate that not all of these enterprises are currently undergoing the kind of rapid growth that attracts venture capital funding, it is significant that such a large portion of enterprises have refined their model to the point where they can begin expanding. In addition to these growth-stage enterprises, 22% of respondents reported being in a pilot or testing phase, while 2% reported that they were in the design-stage, or engaged in preliminary product or service development.[6] The remaining 39% reported that they were fully rolled out in their initial market(s). Enterprises in this category that have been operational for five or fewer years and, consequently, could still be considered early-stage for a social enterprise have been classified as 'start-ups.' They comprise 27% of the sample. Those socents that have been operational for more than five years and can no longer be considered a start-up but are also not in a growth phase have been deemed "steady state" enterprises. They represent 12% of the sample.



Across all stages of development, enterprises report plans for intentional growth over the next three years.

All of the surveyed enterprises report plans to execute at least one of the growth strategies listed in the chart below over the next three years, and 70% plan to employ three or more strategies. The most common plan includes expanding into new geographies and further penetrating existing geographic markets–this aligns with what investors have witnessed in the field. More than half of the surveyed enterprises also plan to develop new products or services and intend to expand into new areas of the value chain. One-third report that they will expand up-market to capture income segments above the BoP. While the economics of this strategy are clear, mission drift could become a concern if enterprises begin to focus more on these higher-income groups than on the BoP, a problem with which the microfinance industry has most recently struggled.

GROWTH STRATEGIES

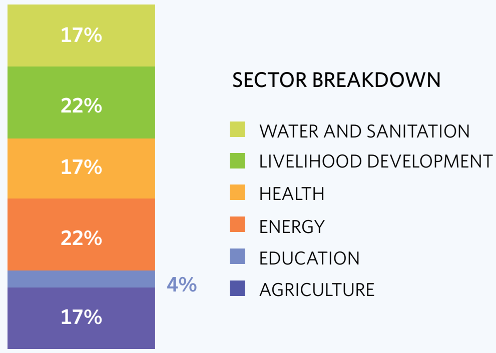


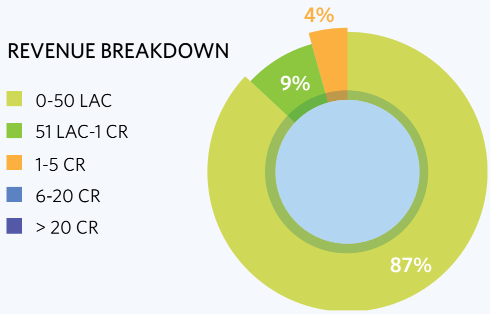
6. We included the design-stage enterprises in the count and analysis of pilot stage enterprises for this report.

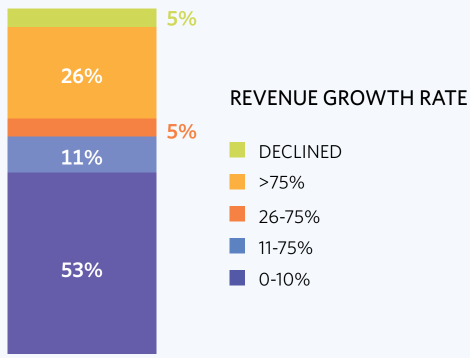
PILOT

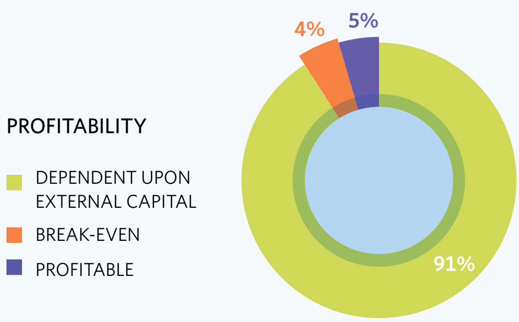
› Number of Surveyed Enterprises: 23
› Average Enterprise Age: 1.6
› Average Number of States of Operation: 2.3
› Median Number of States of Operation: 2

Pilot-stage enterprises have typically completed the initial product/service design and are now operational, testing their model on a small scale with a limited group of customers. They may be experimenting with different distribution channels, pricing models and marketing strategies. Many pilot-stage enterprises are very focused on fundraising, trying to raise the capital needed to fully launch the product or service. They must seek small amounts of capital from many sources, including business plan competitions, fellowships, incubators and grant-makers. They have the highest demand of any stage for grant funding and show a clear preference for impact over commercial investors. The vast majority of pilot enterprises report revenues under INR50 lakh (USD100,000) and are not yet profitable. Over 50% are growing at a slow pace of less than 10% annually, while they focus on getting their business model right. Social enterprises tend to spend more time in the pilot phase than traditional businesses because of the underdeveloped market context and the need to innovate on multiple fronts simultaneously. They have an average age of 1.6 years, with 20% having been in pilot phase for 4-5 years. Ninety-one percent are dependent upon infusions of external capital.





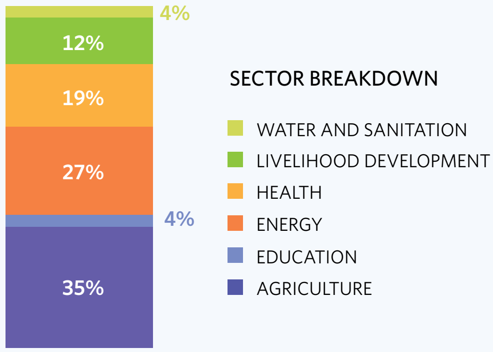


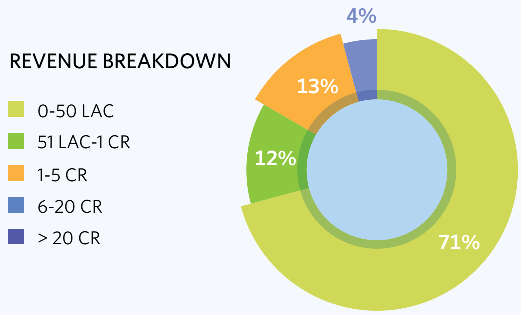


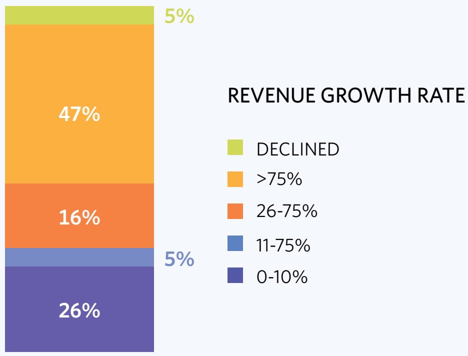
START UP

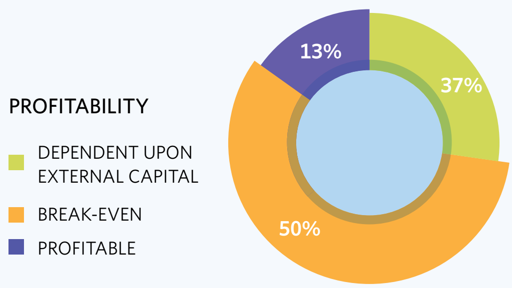
- Number of Surveyed Enterprises: 26
- Average Enterprise Age: 2.0
- Average Number of States of Operation: 2.6
- Median Number of States of Operation: 2

These enterprises have fully launched the product/service in their initial target markets. They are still refining the model, honing their understanding of the target market and its preferences, establishing partnerships for distribution and builing a team of employees. Start-up enterprises are also very focused on establishing a foundation of trust with BoP customers or small-scale producers. While this process must often be repeated in each new market, enterprises report that it is most challenging at the beginning before a real track record is established. Later-stage start-ups that have proven their model and are looking to scale focus more on preparing for growth by building their organizational capacity, including establishing systems and processes across core operational functions, codifying a clear management structure and securing the capital needed to fuel their growth. The majority of start-up enterprises from our survey are small with 71% having a turnover of INR50 lakh (USD100,000) or less. However, their revenue growth has accelerated from the pilot-stage: nearly half are experiencing annual growth of more than 75%. Fifty percent have reached the break-even point, while 13% are profitable.





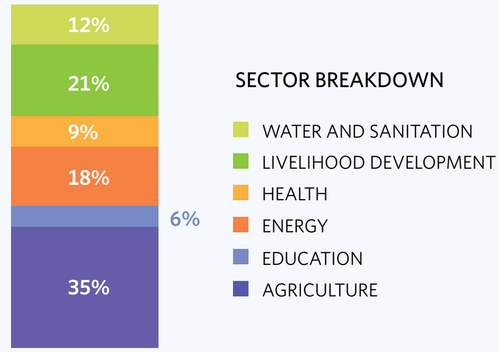


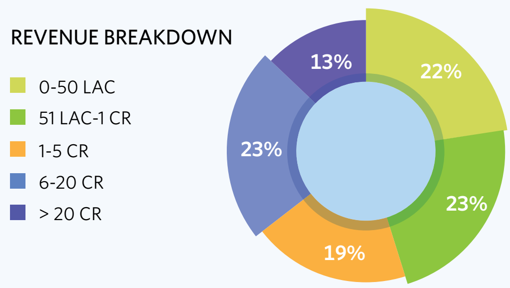


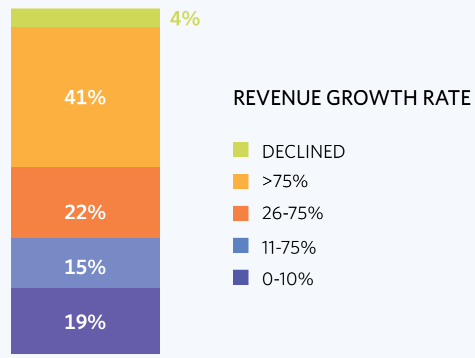
GROWTH -STAGE

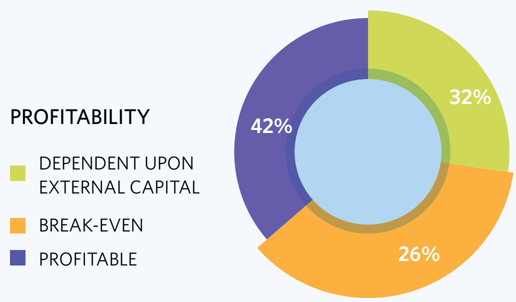
- Number of Surveyed Enterprises: 34
- Average Enterprise Age: 6.1
- Average Number of States of Operation: 6.8
- Median Number of States of Operation: 3

Growth-stage enterprises have proven the core elements of their model and are in the process of scaling it. Yet, these enterprises must continue to innovate and refine their model throughout the scaling process as they encounter challenges in new markets, or adapt existing processes and partnerships to new geographic and cultural contexts. Hiring across the staffing structure, particularly at the lower levels, also becomes a major focus at this stage as enterprises search for right talent. At the same time, raising capital is typically less of a challenge for growth-stage enterprises than at previous stages since they have built a track record and proven the model's success on a smaller scale. Fifty-three percent report that their growth is fueled primarily by company revenues, while the remaining 47% are driven by external funding. As can be expected, enterprises growing because of company revenues are doing so at a significantly slower pace than those driven by external funding: only 20% of the former group saw revenue growth of 75% or more last year, while 62% of the latter did. Across the board, however, these enterprises are significantly larger than at the start-up phase with 23% having a turnover of INR6-20 crore (USD1.2–4 million) and 13% with a turnover of more than INR20 crore (USD4 million). Of the growth enterprises whose turnover last year was less than INR50 lakh (USD 100,000), all but one are growing through external funding and have been operational for two years or fewer, indicating that they are just beginning the scaling process.





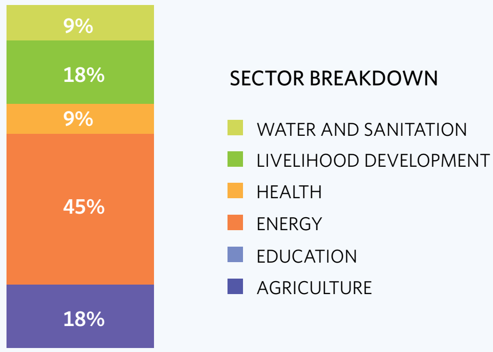


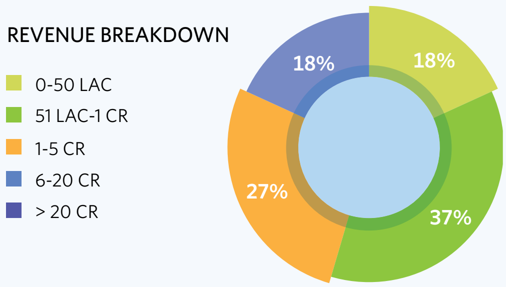


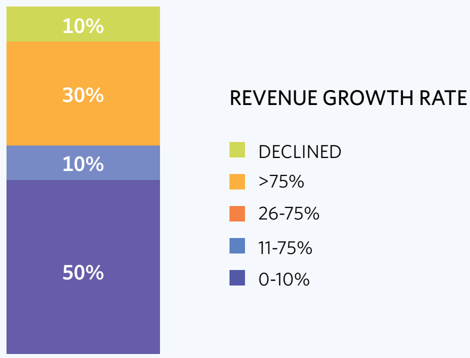
STEADY STATE

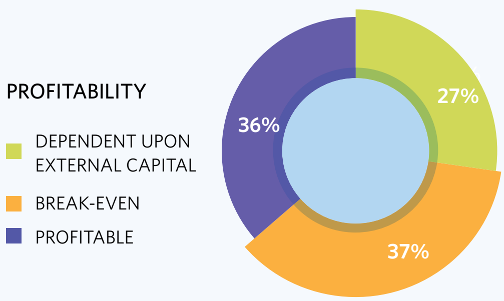
- Number of Surveyed Enterprises: 11
- Average Enterprise Age: 11.0
- Average Number of States of Operation: 7.0
- Median Number of States of Operation: 4

Steady state enterprises are too old to be considered start-ups, but are also not growth enterprises or fully mature. They have been operational for more than five years and identified themselves in the survey as fully rolled out in their initial target markets. Based on their individual profiles, it appears that some have undergone a period of growth in the past, but are not currently expanding beyond their existing markets, while others have not yet moved beyond their market of initial roll out. A common theme across all such enterprises, however, is that significant funding constraints restrict the clear intention to grow. Steady state enterprises report at much higher rates than any other stage that raising capital is a major challenge: 90% of steady state enterprises report this compared to 50% of pilot enterprises. Steady state enterprises tend to have larger annual revenue than start-ups and are more likely to be profitable, but have notably smaller turnovers than growth-stage enterprises and are growing on average at a much slower rate than their growth-stage peers. Interestingly, a disproportionate 45% of these enterprises are in the energy sector, even though energy enterprises represent only 27% of those that have been operational for more than five years.









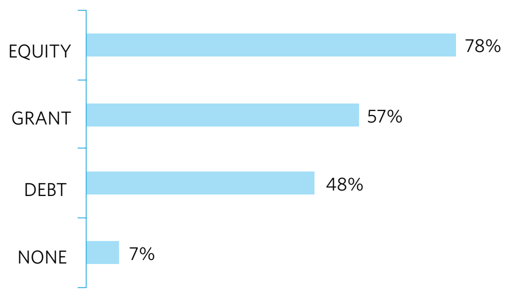
FINANCING THE ENTERPRISES

FINANCING THE ENTERPRISES

India's social enterprises are capital hungry businesses.

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 necessary financing. On the other hand, equity is in high demand among enterprises across all growth stages with nearly four out of five reporting a need for this capital form. Demand is highest among pilot and start-up enterprises, although 73% of steady state enterprises also report a need for equity. Demand is lowest among growth-stage enterprises, but this is likely because 13% have already secured their growth capital. The majority of enterprises across growth stages report a current need for multiple types of funding simultaneously: while 70% expressed demand for two forms of capital, 20% stated that they need all three forms of capital.

CAPITAL NEEDS



More than half of enterprises report a need for grant capital with pilot-stage enterprises expressing the greatest demand.

Nearly 80% of pilot- and design-stage enterprises seek grant funding. Given the challenges of securing other forms of capital at this stage, as well as the relative abundance of grants for early-stage enterprises, this trend is not surprising. Demand decreases moving across the spectrum from pilot to start-up to growth, yet a large portion of enterprises continue to want grant capital at these later stages, as well as in the steady state stage. In interviews, enterprises expressed a variety of needs for grants. Pilot-stage enterprises often use grants for research and development, partial subsidies to enable important management hires or as seed funding for business planning, testing the proof-of-concept and helping kick-start operations. At later stages, enterprises typically have very specific applications for grants that may or may not contribute directly to the bottom line, but enhance the enterprise's social impact. They rarely put grant funding toward general working capital, which would be supported by enterprise revenues or loans. Enterprises may accept and use grants directly or through a sister NGO. Common uses of grant capital by socents include funding the following activities:

- R&D and pilot projects for new products or services;
- Development and implementation of training programs;
- Social impact assessments; and
- Consumer education campaigns.

	PILOT	START -UP	GROWTH	STEADY STATE	TOTAL
EQUITY	83%	87%	70%	73%	78%
GRANT	78%	57%	47%	45%	57%
DEBT	35%	48%	53%	64%	48%
NONE	0%	4%	13%	9%	7%

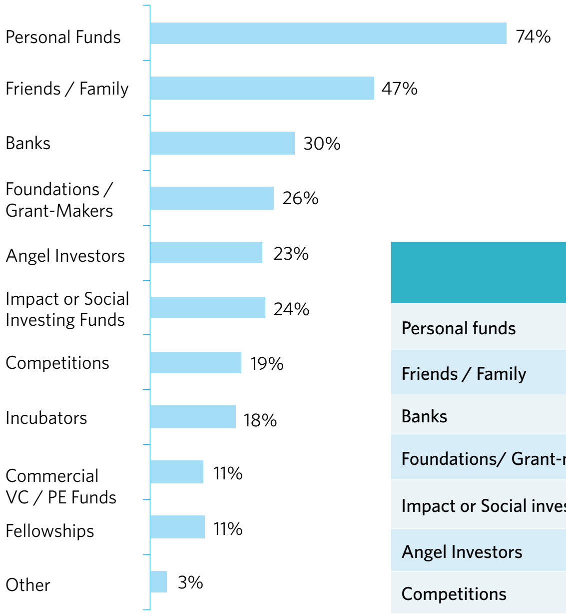
Debt is reported to be the least desired form of capital, but is still in demand by nearly half of enterprises.

As with grant funding, a correlation exists between growth-stage & demand. Steady state enterprises, with an average age of 11 and thus a significant track record to draw upon, express the greatest need for debt, compared to only one-third of pilot enterprises. This trend appears to reflect the capital needs of enterprises, as well as the realities of the conservative Indian banking system, which even with the priority lending rules, shows a strong bias toward larger and more established firms.

Personal funds and money from friends and family are the most common sources of external capital that social enterprises secure over the lifetime of the business.

Nearly three-quarters of enterprises report that founders have put personal money into the business, and nearly half have secured funds from friends and family. Growth-stage enterprises are the least likely to report receiving funds from either of these sources, suggesting that they may have an easier time than enterprises at earlier stages of securing funding through other avenues. As a result, these informal sources represent a much smaller proportion of total capital raised. Banks are also a relatively common source of funding, but very few pilot-stage enterprises have been able to get bank financing. Sixty-four percent of the more established, steady state enterprises have accessed bank financing, which constitutes the most common source of funding for these enterprises apart from personal funds.

SOURCES OF SECURED FUNDING



Soft funding from grant-makers, incubators, fellowships and competitions are a crucial source of funding for pilot-stage enterprises.

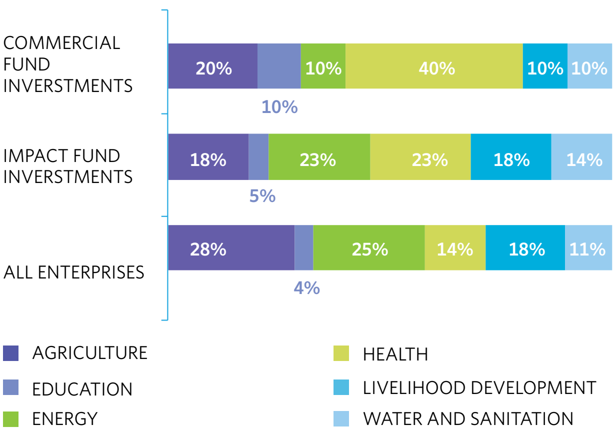
These represent their main sources of capital beyond friends and family and personal funds. Nearly half have received money from foundations or other grant-makers. The next most common sources of funding are business plan competitions, incubators and fellowships. While some of this capital may come in the form of loans or equity on generous terms, the vast majority of it is grant funding and typically in small amounts. As a result, many of these enterprises must devote much of their time to piecing together small amounts of funding from various sources, while also trying to test and refine their business model. Further, many later-stage investors express concern over the use of grant capital by for-profit enterprises, particularly when accompanied by little oversight and accountability. Yet these are the only sources of capital to which many of these enterprises have access. With 83% of early-stage enterprises expressing a need for equity, and relatively few able to access angel or institutional investors, there is a clear gap in the early-stage funding landscape.

	PILOT	START-UP	GROWTH	STEADY STATE	TOTAL
Personal funds	83%	83%	58%	82%	74%
Friends / Family	61%	50%	35%	45%	47%
Banks	9%	33%	32%	64%	30%
Foundations/ Grant-makers	48%	21%	13%	27%	26%
Impact or Social investing funds	17%	17%	32%	36%	24%
Angel Investors	26%	33%	23%	0%	23%
Competitions	43%	17%	10%	0%	19%
Incubators	39%	8%	13%	9%	18%
Commercial VC or PE funds	0%	17%	19%	0%	11%
Fellowships	30%	8%	3%	0%	11%
Other	0%	0%	10%	0%	3%

Commercial venture capital and private equity funds are investing in start-up and growth-stage enterprises, but appear to overlap little in their investment choices with impact funds.

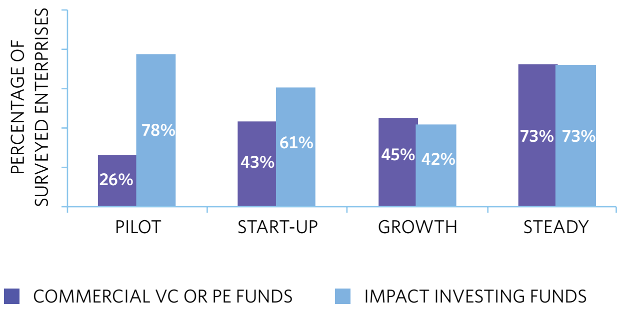
These investments are a relatively new phenomenon, but just as commercial investors eventually followed impact investors into the microfinance arena, they are now also venturing into the broader field of social enterprises. Enterprises across all six sectors have received investments from commercial funds, although our sample indicates a strong skew toward the healthcare sector. While healthcare represents only 14% of our sample, four of the 10 enterprises with commercial investments are in healthcare. This could be because the brick-and-mortar models are more common in healthcare than in other socent sectors, and their high capital expenditures require much larger investments. There also appears to be a notable under-representation of energy enterprises among commercial investors: energy enterprises represent 25% of total survey respondents yet only 10% of total commercial investments. Impact fund investments, on the other hand, are generally representative of the sample's sector breakdown with just a modest over-representation from healthcare and under-representation from agriculture. Further, of the 10 enterprises in our survey who received commercial investments, only three also received investment from impact investors. While the sample size is too small to draw any conclusions, it suggests that impact investments may not be a necessary or even common stepping stone to receiving commercial funding. Rather, the exclusive focus on financial return in contrast to impact investors' joint mandate of financial and social returns may lead commercial funds to identify different investment opportunities.

INVESTMENTS FROM COMMERCIAL VS IMPACT FUNDS



Pilot-stage and start-up enterprises show a preference for impact investing funds over commercial funds, while growth-stage and steady state enterprises are equally interested in pursuing both forms of funding.

DEMAND FOR CAPITAL FROM COMMERCIAL VS IMPACT FUNDS



When asked about which funding sources they plan to pursue in the next year, nearly 80% of pilot-stage enterprises said they will go after impact investment funds, while only 25% plan to pursue commercial VC/PE funds. Start-up enterprises also show greater interest in impact investing funds than commercial funds, although not to such a dramatic degree. Growth-stage and steady state enterprises, on the other hand, plan to pursue both kinds of funding at equal rates. In interviews, early-stage enterprises explain their preference for impact funds using the terminology of "patient capital." They recognize that it will take them more time than traditional businesses to refine their model and to scale in a way that preserves their social mission. Impact investors, they explain, understand that they will need more time for experimentation and growth. These socents also value the impact investors' alignment with their social mission and goals and the importance of preserving those. As enterprises grow, refining and strengthening their model over time, these concerns appear to recede. They may become more comfortable with their model's ability to deliver both social and financial returns and more interested in the larger investment amounts that commercial funds typically offer compared to impact investors.

BARRIERS TO SUSTAINABILITY AND SCALE

Finding and retaining good talent, raising capital and building the value chain are the three most frequently cited challenges by social enterprises.

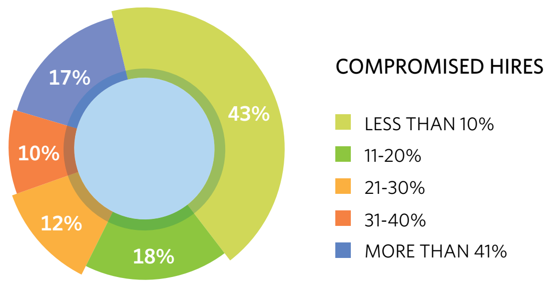
Less than 50% of socents, however, cite any of these as one of the top three challenges they currently face, suggesting that socents encounter a host of strategic, operational and environmental challenges that can vary significantly from one enterprise to the next and over time. Forty-four percent of surveyed enterprises identify securing good talent and raising capital in their top three challenges, and 36% include building the business' value chain. Other commonly cited challenges include proving the model's scalability and creating the business model. Interestingly, incorporating the enterprise is the least common challenge, despite all the red tape this task involves in India, particularly for Private Limited Companies. This could indicate the prevalence of resources available to help entrepreneurs navigate this process.

TOP THREE CHALLENGES TO SUSTAINABILITY AND SCALE

SECURING TALENT

Hiring and retaining good talent is arguably the greatest and most persistent challenge faced by India's social enterprises.

While other obstacles appear to ebb and flow across the enterprise growth cycle, finding and keeping good talent is an enduring challenge that afflicts enterprises from their first to their last hire. Forty percent of respondents report that they have had to compromise on candidates' qualifications or experience level in at least one out of five hires, while 17% have compromised on more than 40% of hires. Growth-stage enterprises on average report a lower percentage of compromised hires, but are no less likely to identify hiring and retention as a primary challenge that they face. Likewise, enterprises based in large urban centers such as Mumbai and Delhi are not immune to this problem: while they have access to a larger pool of applicants, competition is more acute than in smaller cities and rural areas.

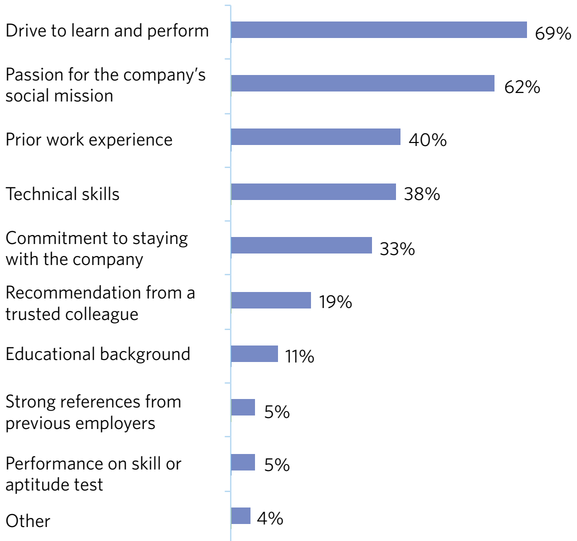


Given these hiring challenges, the majority of enterprises choose to prioritize the "softer" qualities of employee motivation and passion over prior work experience and technical skills in their hiring.

Nearly 70% of respondents selected drive to learn and perform as a top hiring priority. This was followed by a passion for the company's social mission. They look for employees with passion and a drive to learn the "hard" skills they need, as well as the willingness to work in a fluid, entrepreneurial setting. Socents report in interviews that they do differentiate which traits they value across the staffing structure. For senior management positions, enterprises typically look for candidates who have some relevant experience and the fundamental skill set needed for the job, as they must hit the ground running. Equally important among these hires, though, is a passion for the company's social mission. Senior management has substantial influence over whether the enterprise upholds the mission or drifts toward other priorities, so their commitment is critical. Furthermore, a willingness to work for lesser pay or in riskier settings often accompanies these social values. Enterprises that cannot afford market rate salaries need this flexibility as well. For junior-level staff, the drive to learn and perform is most important. Enterprises can train these candidates on the job and are more likely to hire people who may not have the required hard skills, but who demonstrate a strong work ethic and motivation to learn.

The emphasis on these soft traits does not diminish as enterprises develop with growth-stage enterprises valuing them just as much as start-up and pilot-stage enterprises. In fact, growth-stage enterprises are less likely to prioritize technical skills and prior work experience than are the less developed enterprises, but they are more likely to look for a commitment to stay with the company. This likely reflects the difficulty of hiring a growing number of entry-level staff during the scaling process from a limited pool of qualified candidates. The ability to pay competitive wages should mitigate this challenge, but as discussed below, enterprises in the growth-stage often continue to pay salaries that are below market rates.

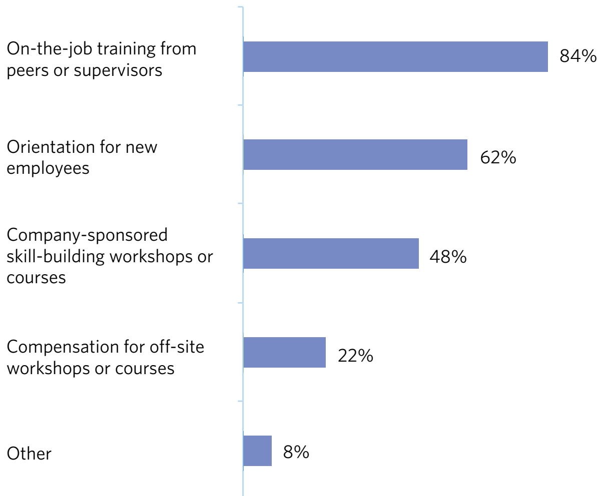
HIRING PRIORITIES



To compensate for the low skill level of many hires, nearly 50% of enterprises offer employees skill-building workshops or courses.

This is quite a high proportion given the industry's youth and the infrastructure required for such training. (It is important to note, however, that these findings do not reveal the quality of these efforts or the level of structure around them.) Growth-stage enterprises are most likely to provide this benefit. It is noteworthy that even 40% of enterprises at the pilot stage and 50% of start-ups offer training to employees. Likewise, the likelihood of an enterprise offering this service to its employees increases as staff size increases, yet even one-quarter of enterprises with up to five employees offer this kind of training. Interestingly, steady state enterprises are the least likely to provide their employees this benefit. Across sectors, energy enterprises are the least likely with only 17% offering training. This remains true after controlling for staff size. The other sectors closely emulate the overall trend. The prevalence of structured training regimens in such a young industry demonstrates the limited pool of skilled applicants and the need to teach them necessary skills after they have been hired so that they may do their job effectively. It also reflects the social mission of some enterprises who intentionally work with underserved groups, such as unemployed youth or female entrepreneurs, to give them with a valuable and transferable skill set, while also leveraging those skills to benefit the enterprise.

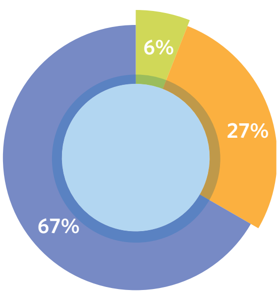
EMPLOYEE TRAINING & PROFESSIONAL DEVELOPMENT

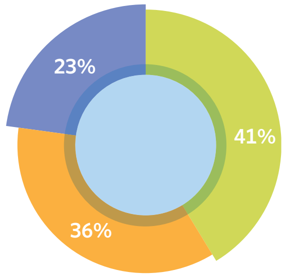


Interviews revealed a surprising number of larger enterprises implementing training programs through partnerships with nonprofits, universities, government agencies and CSR initiatives. In most cases, though, enterprise staff lead training sessions within their organizations. Training tends to focus on building a concrete skill set among entry-level employees. Some enterprises also provide management training to junior-level employees with the intention of promoting them into management roles that are difficult to fill from the outside. A significant amount of innovation appears to be occurring among enterprises on this front and warrants further investigation to understand best practices and models to share with the field.

Enterprises find middle- and senior-level positions the most difficult to fill and junior staff the most difficult to retain.

Three-quarters of socents identify management positions at the senior and middle levels as the toughest positions to recruit, while they overwhelmingly find the highest levels of attrition among junior staff. Although enterprises encounter a limited pool of candidates at every level, the problem is especially acute among senior leadership and middle management. Candidates at these levels must come in with some relevant work experience or skills in addition to a passion for the social mission. With a small pool to draw from, hiring processes can be drawn out considerably, but once a candidate is hired they are much less likely to leave than junior staff. Their leadership role and belief in the social goals invest them in the enterprise's success. Interviews also revealed that socents tend to hire senior management first and then junior level staff, often to wake up later to the "missing middle." Many interviewed enterprises do not have or are just now building their middle management and are discovering how difficult it is to hire and retain employees at this level.



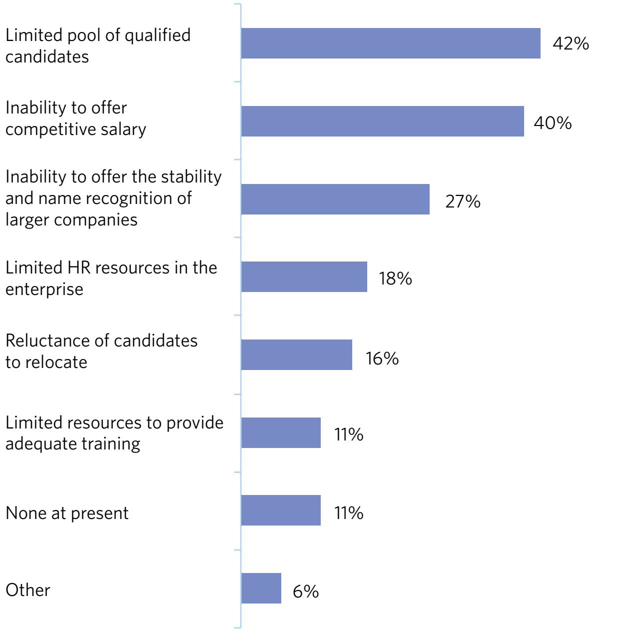


At the other end of the spectrum, enterprises suffer from high turnover among junior level staff, including those that they train, at a high cost to the enterprise. A common problem they report is that once employees have completed training, they will find higher-paying opportunities to apply their recently developed skills, often in cities or government jobs. Some enterprises report using service bonds to keep the trained employees on staff for a minimum time period with mixed success, while others have found that hiring locally or showing a preference for female candidates helps to mitigate this challenge. Providing employees with clear tracks for internal promotion is another strategy and serves simultaneously to help address the hiring gap for middle management.

The constraints that enterprises face in hiring and retaining talent reflect not only the industry's youth and the realities of doing business in India, but also the unique social nature of these enterprises.

A variety of constraints force enterprises to compromise on their hiring. The most common of these are a limited pool of qualified candidates, the limited resources for staff salaries, and the inability to offer the stability and name recognition of larger companies. In part, these constraints reflect the youth of the industry and of doing business in India; they are challenges that all young businesses face. As enterprises develop, however, the constraints related to competing with more mature, traditional businesses should diminish. This effect occurs in part. 39% of pilot-stage enterprises cite the inability to offer the stability and name recognition of larger companies as a top constraint, while only 16% of growth-stage enterprises do. the inability to offer a competitive salary persists as a challenges across growth stages, with 32% of growth-stage enterprises identi-

TOP TWO CONSTRAINTS TO HIRING & RETENTION



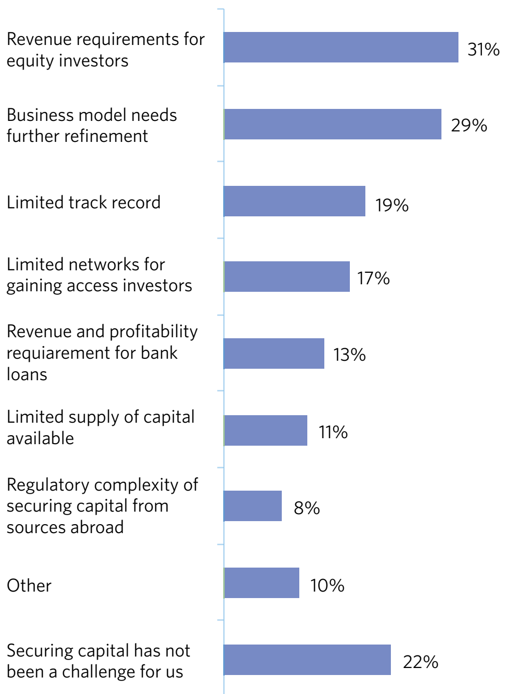
fying it as a primary constraint compared to 39% pilot-stage enterprises. This is also a constraint felt more acutely by Impact First enterprises in the growth-stage: five of 14 Impact First enterprises cite the inability to offer a competitive salary as a top constraint, while none of the five Profit First enterprises do.

RAISING CAPITAL

Enterprises indicate that a sufficient supply of capital is available, but they are not able to access to it.

Investors today often say that there is plenty of capital to go around but a lack of "investable" enterprises. Our survey results suggest that enterprises generally agree that the supply of total capital is not a problem in the industry; only 8% of enterprises identify a limited supply as a primary constraint to accessing capital. Instead, the most commonly cited constraints are investor and lender requirements as well as the need for refinements to the business model. 31% of enterprises identify revenue requirements from equity investors as a top constraint. The challenge is consistent across all stages for enterprises struggling to raise funds. 19% of enterprises, mostly in the pilot and start-up stages, also recognize their limited track record as a deterrent for many investors. The need for business model refinement is found across all growth stages, although it is most common among steady state enterprises. At the same time, 22% of socents report that securing capital has not been a challenge for them. The vast majority of these socents are growth stage.

TOP THREE CONSTRAINTS TO FINANCING

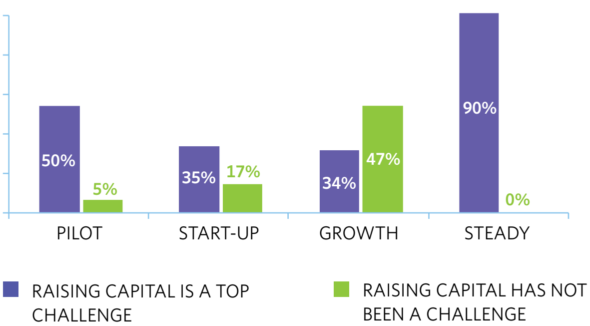


These findings suggest that enterprises understand their role in becoming investor-ready by refining their business model, but the investor definition of "investable" may not align with the realities or needs of the field. Roughly half of socents today are less than two years old and are in the pilot and start-up stages, yet most funding targets more established and growth-stage enterprises.

The most challenging time for most enterprises to secure funding is during the pilot stage before they have built up a track record or adequate turnover.

The most difficult fundraising period for most enterprises is during the pilot-stage, before they have any track record or are generating much revenue. (Steady state enterprises actually have the most difficulty raising capital, but only a small percentage of socents pass through this stage.) Nearly half of pilot-stage enterprises identify raising capital as a top challenge, compared to only one-third of start-up and growth-stage enterprises. Likewise, only 17% report that funding is not a challenge for them compared to 47% of growth-stage enterprises. At this very early, unproven stage, the risk is great, and the financial upside is limited in most cases. As a result, investors motivated purely by financial returns are rarely interested. Even most impact investing funds, which must generate a financial return for their own investors, are reluctant to engage at such an early-stage. Angel investors, who can make riskier bets than funds managing others' money, could address this gap, but India's nascent angel investment community looks first at the profit potential and typically likes to see operations on the ground with an annual turnover of INR30-40 lakh before they will invest. Most enterprises in this stage want a mix of equity and grants, but in the absence of risk-tolerant equity investors willing to make a trade-off between impact and profit, many young enterprises depend on sources of grant capital while continuing to pursue equity. Rarely is a single grant sufficient to fuel start-up, so enterprises spend their valuable time pursuing funding from multiple sources. Nearly half of pilot-stage enterprises reported receiving funding from grant-makers, followed closely by business plan competitions, incubators and fellowships. At the same time, 80% report that they plan to pursue impact funds, and 60% plan to pursue angel investors. Pilot-stage enterprises report pursuing more funding types from multiple sources than at any other stage. This is indicative of the small investment size they receive from their primary sources and of the challenge they face in scraping together enough capital to finance the business at this early stage. Not only does this make it difficult to launch a business, but it is also a major distraction from focusing on more important strategy and operational matters. As a result, enterprises that do manage to secure sufficient seed capital from just one or two sources are at a significant advantage.

THE CHALLENGE OF RAISING CAPITAL



Producer enterprises report that providing affordable working capital to small-scale producers is a major obstacle to their sustainability and growth.

Small-scale producers' limited access to working capital is often a major constraint to expanding production to the levels required by producer companies to meet their own orders. As a result, many producer enterprises–those that engage with small-scale producers on the supply side of the business–seek to help small-scale producers secure up-front funding, either through direct loans from the enterprise or through partnerships with financial institutions. Yet, producer enterprises offering this service report that it places significant financial burden on them. Several report in interviews that they currently take on bank loans to finance the working capital needs directly. While access to bank loans does not seem to be a problem, particularly with the help of priority lending laws, high interest rates make this a barely sustainable option. One enterprise reported that it was even considering converting to a nonprofit structure and relying solely on grant funding because it saw no other way to remain financially viable. Partnerships with microfinance institutions (MFIs) to provide loans directly to producers are another alternative, but the MFI crisis has made it more difficult to secure credit from this source. Another enterprise that initially pursued this route is now considering creating its own MFI for the sole purpose of providing working capital to its small-scale farmers.

Steady state enterprises are not able to secure the capital they need to scale.

While raising seed capital is an immense challenge that most enterprises face early in their development, enterprises who find themselves stuck in the steady state have even greater difficulty securing capital than their early-stage counterparts. 82% of surveyed steady state enterprises report that raising capital was a primary challenge, compared to less than half of pilot-stage enterprises, and none report that fundraising has not been an obstacle. It is unclear from our research why these enterprises have encountered such trouble. Some appear to have remained at the pilot-stage for a long time, relying heavily on grant funding and then, when ready to scale, experienced significant trouble financing their growth. Others appear to have experienced modest growth in the past and want to expand further using external funding, but have not been able to raise it. Steady state enterprises provide the same responses as enterprises at other stages to why they have encountered these funding restraints: they cannot to meet equity investors' revenue requirements or the business model needs further refinement. Further research is needed to understand common themes around the struggles steady state enterprises face in raising funds and improving their business models.

BUILDING THE VALUE CHAIN

Social enterprises operating in BoP markets do not have the robust value chains that typically characterize more established markets.

A value chain encompasses all of the distinct activities and processes that are involved in bringing a product or service from conception to customers. It includes all phases of product development, production, distribution, marketing, sales and servicing. Socents must often innovate on multiple fronts to address skeptical customers, weak distribution channels, inadequate infrastructure and limited supplier options. They may attempt to fill missing or weak links in the value chain through their own operations, and at other times, to establish creative partnerships with NGOs, government bodies, corporations and community groups. Addressing these obstacles often increases costs, making the balance between affordability and profit all the more difficult to find. While every business model has a unique value chain, common challenges emerge across sectors for enterprises operating in the BoP market and with BoP producers.

Distribution channels in BoP markets, especially in rural areas, are expensive and underdeveloped.

They are often missing the "last mile" of connectivity and include a plethora of middlemen, each of whom increase the final retail price of the product or service for very price-sensitive customers. Given these obstacles, many social enterprises seek to build their own distribution channels by creating a rural sales force sourced by locals or to establish unconventional partnerships with MFIs, NGOs and other social enterprises that have already established networks in the target communities. In the former case, extensive training is required to educate the sales agents on the product or service and its benefits for the BoP. An enterprise-operated sales force also calls for basic training on sales and marketing techniques as well as heavy oversight. Channel partnerships, on the other hand, tend to be very specific to a particular geography and enterprise capacity. As enterprises move into new markets or expand capacity in existing ones, they have to find new partners who are appropriate to the specific context and who can manage the enterprise's sales growth effectively.

Socents must often create servicing networks from scratch.

Enterprises that bring new technology to BoP markets must establish reliable networks to service these markets since product maintenance will be unfamiliar for existing infrastructure. Enterprises selling renewable energy products as well as innovative water and sanitation products encounter this challenge. In these difficult-to-reach markets, hiring, training and overseeing locally sourced staff to service the products is often required. A weak or unreliable servicing network can have a dramatic impact on future sales and even be the death knell for an enterprise if it leads consumers to assume that the expensive product falls quickly into disrepair. Such assumptions harm future sales and can be very difficult to overcome once established.

Inadequate physical infrastructure plagues BoP markets.

Unreliable or low-quality access to roads, electricity and telecommunications can dramatically increase the cost of operating in BoP markets and creates obstacles across the value chain–from manufacturing to transportation to servicing. Poor infrastructure is often a prime deterrent for traditional businesses who are considering entering underserved markets. For socents that give equal if not greater weight to impact over profit, inadequate infrastructure is an obstacle to overcome, but rarely a deterrent. As we saw in the geographic distribution of enterprise operations, socents tend to locate their headquarters in major metropolitan areas, but they also seek out markets in underserved and hard-to-access areas with 60% operating in at least one of India's low-income states.

Building trust and demonstrating the value proposition to skeptical consumers is a long and difficult process.

Enterprises report that, particularly in rural areas, BoP consumers are generally skeptical of companies trying to sell them products and services whose value they do not immediately understand or that can be accessed for a lower cost elsewhere, even if the alternatives are of lower quality. Consumer education is often needed to inform consumers not only about a product's benefits, but also about the problem the product addresses, such as poor nutrition, contaminated water or limited natural resources. If an enterprise has not built a foundation of trust with consumers, they will not believe in the alleged benefits of the product or service. Furthermore, BoP consumers are not accustomed to marketing campaigns that target them, unlike their middle-class counterparts. Oftentimes, enterprises will partner with NGOs or community groups who have already established trust with the target market and understand the value proposition of the enterprise's products or services. However, these partnerships can create challenges of their own. Investors often want to see an enterprise take direct ownership of customer relationships, and conflicts inevitably arise between the profit-seeking enterprise and its NGO partner that take valuable time and energy to rectify.

Sourcing, storing and transporting socially beneficial inputs add complexity and cost to the value chain.

A number of socents use inputs that have environmental or cultural benefits but are in low demand across conventional Indian businesses and subsequently are difficult and expensive to access. Such inputs include organic cotton, tasar cocoons and agricultural waste. Enterprises may have to source these inputs from distant or small-scale suppliers, creating constraints to growth. They may even have to source them directly, adding complexity to their value chain. Storage can also be a major challenge for these inputs that have limited supply, particularly if they are only available seasonally. While purely profit-seeking businesses would find the lowest-cost input that meets the need, socents are willing to bear the costs involved with sourcing, transporting and storing these inputs because they contribute to its social mission.

The right partnerships for addressing gaps in the value chain are difficult to find and to scale.

Strong partnerships are vital to the success of many socents. They are often critical for develop new products, train staff or small-scale producers, build distribution channels, build trust in target markets and educate consumers. They can occur with a wide variety of players, including NGOs, MFIs, other socents, government entities and corporate CSR initiatives. Yet, finding the right partner is often a major challenge. Value alignment is critical to successful partnerships but difficult to ensure when each organization has its own goals and mandates. Furthermore, the process must be repeated when enterprises enter new markets or supersede the capacity of a partner organization, as they will rarely scale their operations at the same rate as the socent. An opaque market for finding potential partners and limited infrastructure to support the process exacerbate this challenge.

Producer enterprises must help small-scale producers adapt to the demands of working with a business.

Producer enterprises work with small-scale producers in order to improve their livelihoods. They may also see a compelling business case for organizing and bringing economies of scale to these producers, but this is rarely the easiest or most profitable route for creating the desired output. BoP producers require training in new or improved techniques, as well as training in how to work effectively with business deadlines and quality requirements. They are rarely accustomed to the requirements involving the timeliness, quality or quantity that socents demand of them. Providing this training and then implementing systems to ensure quality control, timely delivery and adequate quantity add complexity to a socent's operations and can make it difficult to compete with larger-scale producers. Further, producers often need loans for working capital to increase their production, and socents try to facilitate access to this capital, if not provide it directly.

VARIATIONS ACROSS GROWTH STAGES

While common challenges persist across growth stages, there are also notable differences in the obstacles enterprises face at each phase of growth.

Hiring and retaining qualified staff and raising capital are among the most commonly cited obstacles by enterprises across all stages of development. Building the value chain is also cited as a major challenge across growth stages, except for steady state enterprises. However, these are not always the greatest challenges, nor do they stand far above other obstacles even when they are. They manifest themselves in different ways depending on where an enterprise is in its development.

Challenges for pilot-stage enterprises revolve around raising seed capital, finding good talent and building the value chain.

Approximately half of pilot-stage respondents identified each of these as primary obstacles to their achievement of sustainability and scale, demonstrating a high degree of consistency across enterprises. At this stage, a disproportionate number of hires are for core leadership positions as the enterprises focus on building the critical skill set needed to operate the business effectively. Not surprisingly, pilot-stage enterprises are also more likely than enterprises at any other stage to identify building the value chain as a primary challenge. They face the daunting task of filling in multiple gaps up and down the value chain from their core operations and testing out innovations on several fronts simultaneously. At later stages, this process remains challenging and requires continued innovation, particularly with movement into new markets, but it will rarely require the same degree of juggling and simultaneous innovation as it does during the pilot-stage.

CHALLENGE	PILOT	START-UP	GROWTH	STEADY STATE	TOTAL
Hiring/retaining qualified staff	52%	32%	43%	27%	44%
Raising capital	48%	32%	31%	82%	44%
Building the value chain	52%	28%	34%	9%	36%
Proving the model's scalability	22%	28%	20%	36%	26%
Developing/refining a business plan	26%	24%	26%	9%	25%
Managing a team successfully	9%	16%	26%	27%	20%
Building an organization	13%	16%	20%	18%	18%
Navigating the regulatory enviroment	22%	24%	11%	9%	18%
Collecting information about the target market(s)	4%	20%	17%	0%	14%
Finding mentorship and support	4%	16%	11%	9%	11%
Measuring impact	4%	12%	14%	9%	11%
Incorporating the enterprises	4%	12%	3%	0%	6%

The challenges start-ups face are more widely dispersed across a host of operational and strategic obstacles.

There was not a single challenge that more than one-third of start-ups identified as a primary obstacle, in contrast to roughly 50% of pilot-stage enterprises agreeing on the same top challenges. The most common obstacles identified by start-ups are similar to those for pilot enterprises: securing good talent (32%), raising capital (32%), building the value chain (28%) and proving the model's scalability (28%). But these enterprises were more likely to select a host of other challenges including developing/refining a business plan (24%), navigating the regulatory environment (20%), and collecting information on the target markets (20%). This trend may indicate that enterprises face multiple obstacles of equal intensity as they ramp up operations and test their business model with a larger market, causing the wide dispersion across top challenges identified.

Hiring and retaining qualified staff is the most frequently reported challenge for growth-stage enterprise.

Forty-three percent of growth-stage enterprises identify this as the primary obstacle they face, reflecting the challenges of hiring to keep up with the pace of growth. Hiring, training and retaining a sufficient number of junior staff is especially difficult, since hiring needs accelerate fastest at the junior levels, and the investment that is required to get under-skilled employees properly trained is high. Training all too often accelerates the departure of these same employees for higher paying jobs. Building the value chain continues to be a common obstacle at this stage, cited by 34% of growth enterprises. Even enterprises that build successful value chains in their initial market(s) must often innovate again with certain elements as they expand into new geographies. Organizational issues also take on greater importance at this stage. Building an organization and managing a team successfully become more common concerns than at earlier stages. While enterprises should implement systems to standardize core operational functions and establish a clear reporting and decision-making structure prior to scaling, many end up playing catch-up on these fronts as they grow.

Raising capital is by far the greatest challenge facing steady state enterprises.

An astounding 82% of steady state enterprises identify fundraising as one the three greatest challenges they face. Although it is unclear why these enterprises have such trouble raising capital, the second most common obstacle may offer a clue: 36% report that proving the model's scalability is a top challenge. Interestingly, this does not translate into a need to refine the business plan, which only 10% of steady state enterprises identify as a major obstacle in comparison to approximately one-quarter of enterprises across each of the other growth stages. Nonetheless, it seems likely that the business models of steady-state enterprises require further refinement in order to be scalable, and this has been a primary obstacle to securing growth capital.

RECOMMENDATIONS

India's social enterprise landscape has experienced dramatic growth in the last few years, and a supportive ecosystem made up of incubators, consultants, academics, donors and investors have made a significant contribution to this deveopment. Today, India has one of the most robust and innovative social enterprise industries of anywhere in the world. Many challenges remain, however, and various stakeholders can do much more can to create an enabling environment for social enterprise growth. Below are actionable recommendations based on the findings in this report for how the field can support social enterprises on their path toward sustainability and scale.

SECTOR ENABLERS [7]

Leverage human capital from Indian corporates.

Capitalizing on the current CSR wave in India, incubators and other sector enablers could establish partnerships with corporations to connect social enterprises with this source of skilled labor. Corporate partners could offer two-to-six month secondments to interested and qualified employees who would serve as full-time, on-site volunteer consultants for a social enterprise. Sector enablers would serve as "matchmakers," ensuring that the expertise of the employee meets the needs of the enterprise and providing a basic orientation to employees. Such programs could take advantage of more local talent to give socents access to content and sector expertise that address a targeted need and benefit the enterprise beyond the consultant's exit.

Encourage business schools to incentivize students to join the social enterprise workforce.

Business school graduates are prime candidates for middle and even upper-management positions at social enterprises, but very few choose to pursue this route. One reason is the need to compensate for the opportunity and financial cost of two years in school, which propels them toward higher-paying opportunities. Schools could alleviate this concern by proactively offering student scholarships or retroactively reimbursing fees to students who commit to working at a social enterprise for a fixed time period. The Indian Institute of Management Bangalore (IIM-B), for example, has pioneered the path for this kind of initiative by providing a partial refund of program fees to students who work at a nonprofit for three years. Sector enablers, particularly those that already have strong relationships with business schools, should lobby schools to offer this type of initiative.

Streamline the application process for business plan competitions.

Many early-stage entrepreneurs spend countless hours pursuing small amounts of prize money through business competitions, sacrificing precious time to fill out one application after the next. If the organizers behind these competitions came together and created a standardized application, everyone would benefit. Entrepreneurs could spend more time focused on their business, and the competitions would attract more applicants, thereby having a larger pool to draw from. In cases where information beyond the standard application is crucial, organizations could create a short supplement form. Social enterprise fellowships and incubators could also consider developing a common application.

Facilitate partnership development for socents.

Because of weak value chains in the socent industry, enterprises rely heavily on partnerships with a range of organizations for activities across the value chain from distribution to employee training to consumer education. Building these partnerships, however, is often a challenge in itself. Sector enablers could help bring potential partners together through online forums or physical meetings. An active database where NGOs, socents, CSR initiatives and other organizations that are interested in partnerships would bring transparency and efficiency to the process. Best practices for partnership development around distinct activities such as distribution or consumer education would also be valuable. Such partnership development initiatives could provide a framework for deciding between a partnership approach and direct implementation as well as strategies for identifying and evaluating potential partners.

7. Sector enablers are all the organizations who provide direct, non-financial support to social enterprises with the goal of supporting individual enterprises as well as the broader field. It includes incubators, consultants and industry organizations.

Support peer-learning for early-stage socents.

Pilot and start-up enterprises overwhelmingly reported in interviews that one of their most valuable sources of moral and practical support is other entrepreneurs. They place high value on the sense of community and lessons learned from other social entrepreneurs. They also benefit from more tactical forms of help such as updates on the latest happenings in the field, access to their networks and vendor recommendations. Beyond intensive peer-learning programs, these peer-to-peer exchanges can be encouraged by creating more opportunities for entrepreneurs to interact at conferences, establishing online communities that keep them connected and creating common work spaces to facilitate regular interaction.

INVESTORS AND DONORS

Mobilize a network of impact angel investors.

More than 80% of enterprises in the pilot-stage desire equity, but few are able to secure it. At this stage, the financial return does not justify the risk for commercial investors. Even impact investing funds are beholden to their own investors and so are typically reluctant to take on the risk of investing in pilot-stage enterprises. A community of socent angels investing their own money, however, could tolerate greater risk for the potential of a high social impact pay-off. The recent growth of conventional angel investors in India holds promise. Yet, a community of socent angel investors can share a pipeline and due diligence costs while applying a model of high-risk, high-volume investments at incremental levels of funding. Such a group could make a significant impact on the early-stage funding gap. The network could be facilitated by an intermediary or established by a visionary group of high net-worth individuals with a passion for combining their social values with their business acumen to nurture nascent enterprises.

Encourage the accountable use of grant funding.

High demand for grant capital exists across growth stages, and a surprising number of enterprises already have access to them. However, investors of all stripes often express mixed feelings about enterprises pursuing grants, believing that it indicates a weakness in the business model. The challenges of building a product or service for the BoP market and innovating around fragmented value chains, though, often necessitates the use of "soft" funding, particularly early in an enterprise's development. Product development, pilots, training, impact assessment and consumer education, in particular, can often be supported effectively by grants. Investors should understand which applications of grant funding are valuable for socents and encourage them to pursue it where appropriate. They may even consider extending grants themselves alongside a financial investment or collaborating with a foundation for this purpose. Grant-makers also can apply a venture philanthropy model to high-risk, early-stage enterprises. This model involves large infusions of flexible grant capital over several years accompanied by high levels of donor engagement, non-financial support and accountability for measurable results. Such an approach can free entrepreneurs to focus on the business rather than fundraising. It may be the most appropriate funding strategy for high-risk, high impact potential enterprises where the financial pay-off will take over a decade to realize.

Establish lending facilities that cater to producer enterprises.

Many enterprises that work with small-scale producers such as farmers or artisans report that securing working capital for these producers is one of their greatest barriers to profitability and scale. They often take out bank loans and become financial service providers for the producers themselves. But the high cost of debt and collateral requirements from banks in India, coupled with the other challenges they face as social enterprises, make this a barely viable and sometimes even unaffordable option. Impact investors could establish debt facilities that make below market-rate loans to producer enterprises for working capital needs and use purchase orders as collateral to lower the risk.

GOVERNMENT AND POLICYMAKERS

Target early-stage enterprises with the India Inclusive Innovation Fund.

The National Innovation Council (NIC) announced plans for a INR5,000 crore (USD1 billion) fund that will support innovations in critical goods and services for India's BoP. It is scheduled to launch in the summer of 2012 and will operate as a private fund with a government stake of no more than 20%. According to the NIC, the Fund will seed early-stage ideas and expand successful ones. Given the current imbalance between available capital and enterprise needs, the Fund could maximize its impact and alleviate gaps in the funding landscape by prioritizing investments in pilot-stage and start-up enterprises. We recommend that the NIC require this early-stage focus in the Fund's charter along with the BoP mandate. The Fund can accomplish this goal by investing directly in early-stage enterprises or by offering bulk financing to incubators for reinvestment.

Reform sector-specific policies that restrict private sector participation.

There are many sector-specific policies and regulatory restrictions that limit the private sector's engagement and inhibit social enterprise growth as a result. A prime example of this is found in India's education sector, where archaic rules mandate that all formal education institutions operate as not-for-profit institutions. These regulations restrict equity investment in this space and cause most affordable private schools to operate as hybrid for-profit/nonprofit structures. This is a workable but inadequate solution that creates significant barriers to entry for private players. Examples such as this exist across all critical needs sectors discussed in this report. While this study did not explore the challenges arising from sector-specific policies in detail, addressing them through policy change would undoubtedly benefit socents and private sector more broadly.

Invest in infrastructure development through public-private partnerships.

Weak and inefficient physical infrastructure, particularly in rural areas, leads to high transport costs, power and water shortages, and poor internet connectivity for all businesses including social enterprises. Addressing this infrastructure deficit will require massive levels of funding–estimated in India's 12th Five Year Plan to be USD1.5 trillion. The public sector cannot fill this gap alone, and increasingly, the central and state governments are showing openness to private sector participation through public-private partnerships. We would encourage the acceleration of this trend toward public-private partnerships for infrastructure development as a key strategy for building an enabling business environment that will help social enterprises prosper.

APPENDIX

Below is a complete listing of enterprises that completed the Social Enterprise Landscape Survey conducted by Intellecap in Nov-Dec 2011. The starred enterprises also participated in a follow-up interview.

A

Agsri
Akshayakalpa Farms And Foods Pvt. Ltd.
Ambicales Clean Technologies Pvt. Ltd.
Aquagri Processing Pvt. Ltd.
Arohana Dairy Pvt. Ltd.*
Ayurvaid Hospitals
AYZH Health And Livelihood Pvt. Ltd.*

B

B2R Technologies Pvt. Ltd.
Babajob.com
Bamboo House India
Basic Water Needs India Pvt. Ltd.
Bhartiya Samruddhi Finance Ltd.
Bhushan Agro
Biosense Technologies
Boond Engineering & Development Pvt. Ltd.*

C

Cleanstar Energy Pvt. Ltd.
Cogknit Semantics Pvt. Ltd.
Coir Atlas
Culture Aangan

D

DAH Jaipur Ltd.
Decentralised Energy Systems India Pvt. Ltd. (DESI Power)
Driptech

E

Earthen Glow*
Ecofarms (India) Ltd.
Ecoloove
Ek Titli Solutions
Ekgaon Technologies
Ekutir Rural Management
Embrace
Envirofit India Pvt. Ltd.

F

Frontier Markets

G

Glo Tech Organics Pvt. Ltd.
Global Easywater Products Pvt. Ltd. (GEWP)*
Glocal Healthcare Systems Pvt. Ltd.
Gram Power Inc.
Gram Tarang Employability Training Services Pvt. Ltd.*
Gram Vaani Community Media
Green And Good Store
Green Basics
Greenway Grameen Infra

H

Hammer & Mop
Healthpoint Services India Pvt. Ltd.
Helioz Research & Development

I

I-Initiate & Impact Carbocuts Pvt. Ltd. (Cycle Chalaao)
I&Fs Education*
Inclusive Planet
Intuit Labs Fasal

J

Janani Agriserve

K

Kanak Resources Management Limited
Kautilya Phytoextracts Pvt Ltd

L

Leanway Energy Pvt Ltd
Lifespring Hospitals Pvt. Ltd
Lotus Hospital & Research Centre

M

Masuta Producers Company Ltd.*
Mera Gao Micro Grid Power Pvt. Ltd.
Meradoctor
Milk Mantra Dairy Pvt. Ltd.

N

Newdigm Healthcare Technologies Pvt. Ltd.*
No Nasties
Noble Energy Solar Technologies Ltd.

O

Onergy
Ossian Agro Automation Private Limited

P

Pharmasecure Pas India Pvt. Ltd.
Piramal Eswasthya
Pro Nature Organic Foods Pvt. Ltd.

R

Rain Water Concepts (I) Pvt. Ltd.
Rangsutra
ROPE*
Rose Computer Academy*

S

Safal Solutions
Sahaj Agrofarms
Sakhi Retail Pvt. Ltd.
Samagra Off-Grid Utilities
Samridhi Agri Products Pvt. Ltd.
Seed
SELCO Solar Pvt. Ltd.
Shramik Sanitation Systems*
Shree Kamdhenu Electronics Pvt. Ltd.
Simpa Networks*
SP Renewable Energy Sources Pvt. Ltd.
Star Agriwarehousing & Collateral Management Ltd.
Suminter India Organics Pvt. Ltd.
Super30
Sustaintech India Pvt. Ltd.
Swasth India Services Pvt. Ltd.

T

Tanclean Pvt. Ltd.
The Village Store
Thrive Energy Technologies Pvt. Ltd.
Together As One
Travel Another India

U

Under The Mango Tree
Urja Bio Systems

V

Vaatsalya Healthcare Solutions Pvt.Ltd.*
Vivam Agrotech
Vivam Agrotech Pvt. Ltd.

W

Waste Ventures
Waterhealth India
Waterlife India Pvt. Ltd.
Wello*

X

X-Runner*

The following individuals from impact investing funds, incubators, universities and other sector enablers were also interviewed by Intellecap to inform the content of the Social Enterprise Landscape Survey.

Srey Bairiganjan
Research & Communications Director at New Ventures India

Noshir Colah
Executive Director of Aavishkaar

Tej Dhami
Director of Incubation Support at UnLtd India

Sandeep Farius
Co-Founder of Elevar Equity

Rob Katz
Portfolio Manager at Acumen Fund

Paula Mariwala
Executive Director of Seedfund

Mark Hand
Investment Associate at First Light India Accelerator

Shashank Rastogi
Director of Operations at Center for Innovation & Incubation and Entrepreneurship

Yashveer Singh
Founder of National Social Entrepreneurship Forum

Thenmozhi Shanmugam
Manager of New Ventures at IITM's Rural Technology & Business Incubator

Shiva Shanker
Financial Analyst of Grassroots Business Fund

Madhukar Shukla
Professor at Xaviers Labour Research Institute

INTELLECTUAL CAPITAL ADVISORY SERVICES PVT. LTD.

512, Palm Spring, Beside D-Mart, Link Road, Malad (W), Mumbai – 400 064
T +91 22 40359222 **F** +91 22 4035 9207

www.intellecap.com

Mumbai | Hyderabad | Delhi | Palo Alto