



# NATURAL CAPITAL FUND

NEW GREEN  
FUND INITIATIVE

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## Context

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As the CEPF project comes to a closure, the team at ATREE CEPF project had to deliberate on the way forward for natural resources based enterprises in the Western Ghats region. As part of this, several rounds of discussions were held with different stakeholders, grantees and other subject matter experts. Having considered the challenges of scaling such enterprises, it was discovered that market linked models, driven by demand, may foster sustainable results in the long run. This prompts for a fundamental shift from a grant based system to a more accountable market based system. This shift is not confined to transforming business models and strategy, but runs deep into even shifting the thought process of some of these entrepreneurs. A follow up to this resulted in exploring the opportunity of launching a green fund or biodiversity fund that has the potential to address a triple bottom line criteria.

### Summary of the closing workshop

1. CEPF provided USD 6 Mn in support of ~ 100 grantees who have focused on enhancing public goods and improving ecosystem services. The portfolio has been diverse and very rich with both the size of the interventions and the thematic scope of engagements. A few of the have developed market linkages and backend strengthened through sustainable harvesting practices.
2. Post-CEPF, the grants can be designed as seed or incubating funds on the likes of Echoing Green and an umbrella organization can be established that has a combination of both public and private funds, values of non-profit but processes and systems and business that is embedded in private entrepreneurial space. The social equity will drive the business as an individual or group with strong emphasis on sustainable monitoring.
3. Already partners have demonstrated businesses on wild honey, millets and other NTFPs that have the potential to scale. These require equity and mezzanine funds with strategic plans for growth and convergence. Multiple support having to do with legal frameworks, market building and brand building, certification and triple bottom line impacts are required. New business and their incubation require patient capital and leadership in support of developing a portfolio of businesses, appropriate machinery and the passion and intelligence to share the risk in establishing the business. There is a need for a database of individuals with skill sets to help and mentor new and established businesses in strategy, processes and products.
4. At the national and state levels, government is interested in biodiversity finance and a portion of the CSR funds totaling around INR 4000 Cr per year can potentially be tapped.

### This report

In this context, **SAS Partners Corporate Advisors** was approached by senior members of the CEPF project @ ATREE to assist them in framing these thoughts and advising on the way forward.

## Disclaimer

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## Abbreviations

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<b>AIF</b>	Alternate Investment Fund
<b>APEDA</b>	Agricultural & Processed Food Products Export Development Authority
<b>API</b>	Application Programming Interface
<b>AYUSH</b>	Ayurveda Yoga Naturopathy Unani Siddha and Homeo
<b>BoP</b>	Base of the Pyramid
<b>BRICS</b>	Brazil, Russia, India, China and South Africa
<b>CA</b>	Chartered Accountant
<b>CCD</b>	Compulsorily Convertible Debentures
<b>CCPS</b>	Compulsorily Convertible Preference Shares
<b>DTAA</b>	Double Taxation Avoidance Agreement
<b>ERP</b>	Enterprise Resource Planning
<b>FDI</b>	Foreign Direct Investment
<b>FEMA</b>	Foreign Exchange Management Act
<b>FMCG</b>	Fast Moving Consumer Goods
<b>GMO</b>	Genetically Modified Organism
<b>GOTS</b>	Global Organic Textile Standard
<b>GP</b>	General Partner
<b>IMF</b>	International Monetary Fund
<b>IMR</b>	Infant Mortality Rate
<b>IPO</b>	Initial Public Offering
<b>ISOT</b>	Indian Standard for Organic Textile
<b>KPI</b>	Key Performance Index
<b>LP</b>	Limited Partner
<b>MIS</b>	Management Information System
<b>MMR</b>	Maternal Mortality Rate
<b>MoEF</b>	Ministry of Environment and Forests
<b>MoUD</b>	Ministry of Urban Development
<b>MSW</b>	Municipal Solid Waste
<b>MW</b>	Mega Watt
<b>NPOP</b>	National Programme for Organic Production (NPOP)
<b>NSOP</b>	National Standards for Organic Production
<b>NTFP</b>	Non Timber Forest Products
<b>PPM</b>	Private placement memorandum
<b>PPP</b>	Public Private Partnership
<b>SEBI</b>	Securities and Exchange Board of India
<b>SPCB</b>	State Pollution Control Board
<b>STP</b>	Sewage Treatment Plant
<b>USDA</b>	United States Department of Agriculture
<b>VPH</b>	Veterinary public health

## Definitions

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<b>Capital commitment</b>	Aggregate amount agreed by a Contributor to be contributed to Fund in accordance with the provisions of the Contribution Agreement
<b>Contributor</b>	All individuals/Entity invested in the fund
<b>Corpus</b>	The total amount of funds committed by investors to the Alternative Investment Fund by way of a written contract or any such document as on a particular date

<b>Drawdown</b>	The Capital Contribution made by a Contributor to Fund I against its respective Capital Commitment pursuant to a Drawdown Notice
<b>Grant</b>	Sum of money paid as a charity and hence does not expect it to be returned
<b>Investee company</b>	The entity in which an Alternate Investment fund makes investment
<b>Investment Manger</b>	Investment manager is responsible for sourcing Investment opportunities, Managing the portfolio and find ways to exit investments
<b>Management Fee</b>	The management fee payable to the Investment Manager in connection with management of Fund as set out in the Management Agreement
<b>Muted returns</b>	Return on investment not specified
<b>Offshore investor</b>	Investors investing who are resident in foreign countries
<b>Onshore investor</b>	Investors investing in native country
<b>Settlor</b>	The person who makes settlements in the trust
<b>Social venture</b>	Social venture means a trust, society or company or venture capital undertaking or limited liability partnership formed with the purpose of promoting social welfare or solving social problems or providing social benefits and includes. (i) Public charitable trusts registered with Charity Commissioner; (ii) Societies registered for charitable purposes or for promotion of science, literature, or fine arts; (iii) Company registered under Section 25 of the Companies Act, 1956; (iv) Micro finance institutions;
<b>Social venture fund</b>	Social venture fund means an Alternative Investment Fund which invests primarily in securities or units of social ventures and which satisfies social performance norms laid down by the fund and whose investors may agree to receive restricted or muted returns
<b>Sponsor</b>	The person who set up the Alternative Investment Fund and includes limited partners to the trust
<b>Treaty</b>	Tax Treaty is a bilateral agreement made by two countries to resolve issues involving double taxation of passive and active income.
<b>Trust</b>	Legal entity created by a party (the Sponsor) through which a second party (the trustee) holds the right to manage the trust assets or property for the benefit of a third party (the beneficiary/contributor)
<b>Trustee</b>	An individual person or member of a board given control or powers of administration of property in trust



# About the New Initiative

## Objective and Investment Philosophy

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To create a new social impact fund that will make investments into: **Economically viable, socially impactful, and ecologically balancing** early stage opportunities in India.

The Vision of the fund is to enable a more sustainable form of enterprise to succeed in the market place. Economic viability will be the engine that will ultimately drive the social empowerment of the producers and associated stakeholders while also ensuring the ecological integrity of the resource base – in other words, an emphasis on a triple bottom line measurement. This initiative is very much in alignment with the global compact on Sustainable Development Goals (SDGs).

### Economically viable opportunities

Impact enterprises (or) social ventures are often unfairly tarred as if being meant for non-profit. This prejudice has a multi-faceted impact on impact enterprises. These enterprises are regarded to be less motivated and less progressive. There is a psychological barrier as well. For some, these ventures are essentially shell companies to re-route unaccounted money of wealthy individuals. For some others, these are companies formed by individuals who want to access government and corporate spending on social and economic reform activities.

In reality, and in recent times, there are a number of enterprises that have emerged for all the good reasons. These ventures are run by motivated promoters who are trying hard to wash away this black label and prejudice around social ventures. These enterprises work towards creating an economic impact to the promoters in the process. Thus, for all the good reasons, they make profit. The profits (or) returns of these ventures may be less compared to their peers, given a number of factors like markets, scale, and margins. However, the concept of profits drives and motivates the business; though if not the only motivating factor. In this process, they connect themselves to creating social impact in a more sustainable manner.

### Socially impactful enterprises

By definition<sup>1</sup>: —a social venture means a trust, society or company or venture capital undertaking or limited liability partnership formed with the purpose of promoting social welfare or solving social problems or providing social benefits. It is important to understand and define social welfare and social problems. These are essentially common problems that are persistent in the society and range from education, infrastructure, gender, community, conservation, and health. These categories impact the way people interact with each other and make a living. In a nutshell, social ventures are connected to people engagement and empowerment. These are enterprises that operate for, or are operated by, people who are at the bottom of the pyramid.

*The Kudumbashree project in Kerala is a classic example of a social venture project. Under this project, a number of micro enterprises have taken shape in a self-help group model of operation. The project is aimed at empowering the women in the state to proactively engage in community model businesses that will in turn reward their families to make a better living.*

Needless to say, the number of social impact ventures has been growing in recent years. Most of these ventures are not backed by government funds (as the case stated above) or grants; but by serious venture capital money. *Today, India is regarded as a major global hub for impact investing, with a highly evolved*

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<sup>1</sup> SEBI, guidelines

*ecosystem comprising diverse stakeholders, well regarded success in BoP entrepreneurship, pioneering investors, and a wide array of enterprise enablers.<sup>2</sup>*

These enterprises work closely towards making an impact to the bottom of the pyramid (BoP) population by focusing on business models for sustainability. The sustainability performance should be measured and scaled in an effective way. Investments made into these enterprises benefits the investors and the society as a whole and also provide the investors with a number of initiatives, thereby creating financial returns alongside measurable social returns.

### Ecologically balancing ventures

Environment and ecology are often the last ones to draw attention when it comes to business in an emerging economy. That is sad, but a bitter truth. The evidence to this is right in front of our eyes. Global warming is hot topic for discussion, but hard to see in action. Most experts agree to the fact that there is a trade-off between creating economic growth and environmental conservation. In this context, it is worth defining ecologically balancing ventures.

These ventures are either aimed at conserving the environment or minimizing the impact on environment arising from their business operations. This is a strategic objective of the enterprise. The promoters of these ventures do not compromise on environment parameters for profits.

*Given that small, micro and medium sized enterprises (SMMEs) account for the largest share of enterprises and employment across the world, it is necessary that “Green Economy” and “Green Growth” strategies consider fully the production, technology and management practices of these enterprises. Furthermore, SMMEs can be key drivers of eco-innovation and key players in emerging green industries. New and young enterprises often have the drive and capacity to exploit technological and commercial opportunities that are neglected by more established companies, sometimes challenging the business models of existing firms.<sup>3</sup>*

## Motivation

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### Motivation for the Fund Sponsor

- ✓ Belief in opportunity
- ✓ Experience
- ✓ The viable way forward to building a broader horizon

### Motivation for Investors

- ✓ Delight of committing into impact investment to serve a larger purpose
- ✓ Background of sponsors of the fund
- ✓ Investment strategy
- ✓ Returns
  - Social and ecological impact being created by the fund
  - Long term returns

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<sup>2</sup> IntelleCap Report on Impact Investing

<sup>3</sup> International Institute for Sustainable Development

## Framework

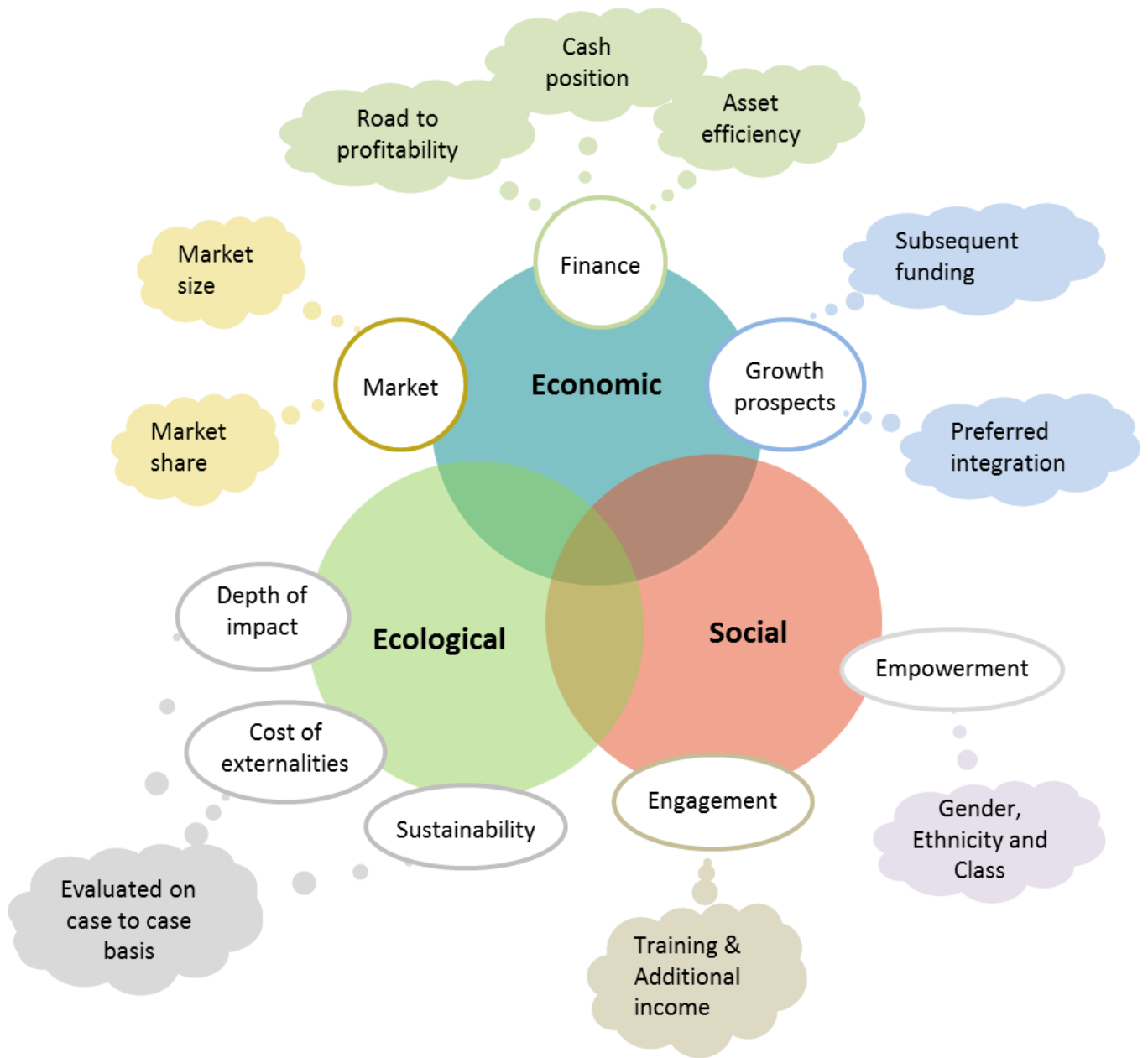
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The metrics for assessment both ex ante and ex post will be specific to the type of enterprise, whether product and/or service oriented. However, on a broad note, investees may have to fit in with the Nature Capital Fund investment thesis of creating a triple bottom line impact.

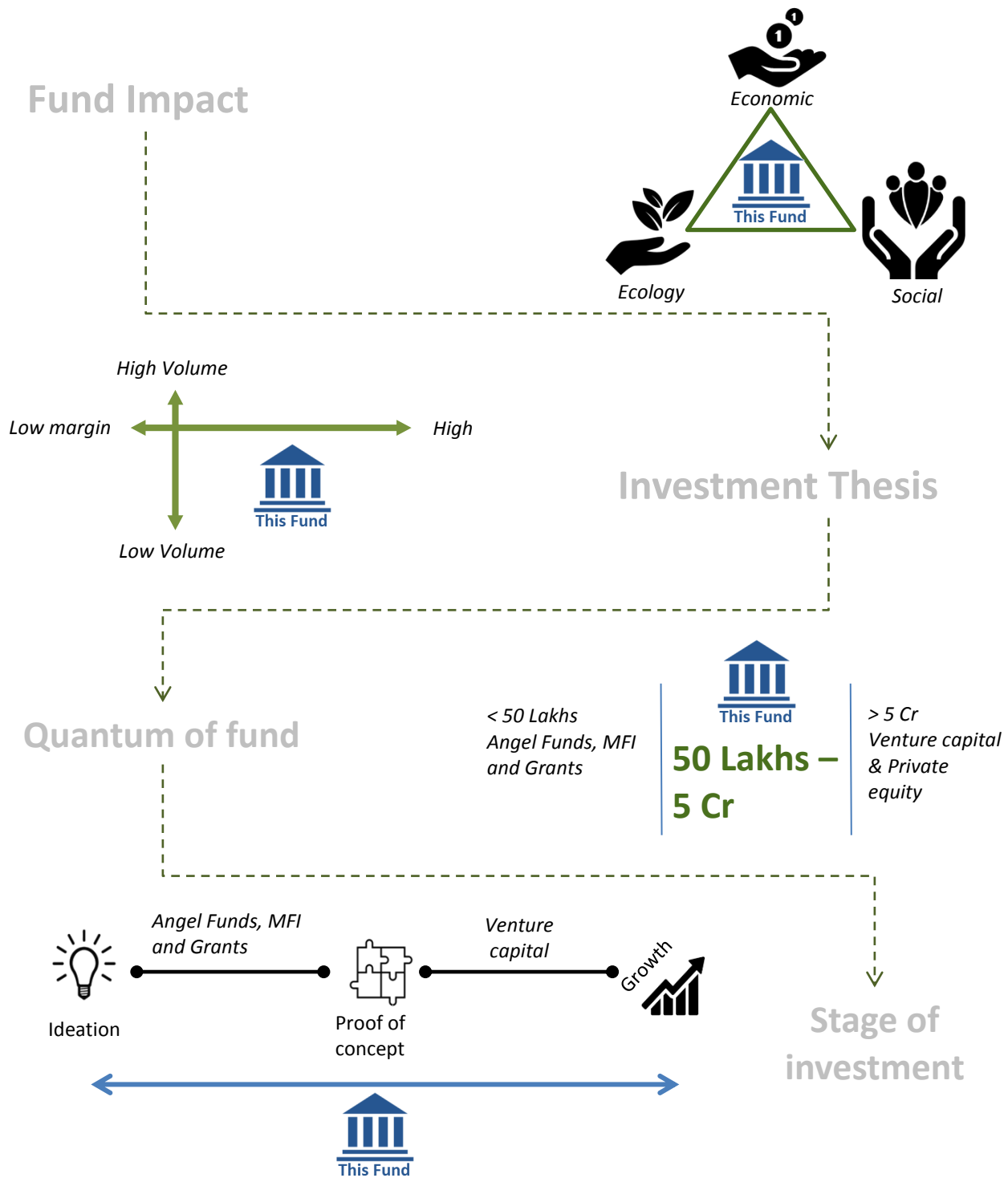
All potential investee enterprises will have to break even in a reasonable period of time in terms of revenues and costs and over time start generating a surplus, both on a cash basis as well as on an accrual basis. The Investment Screening Committee (IC) will also judiciously assess the potential social benefits that will accrue to the people directly involved and the larger community (such as additional income, gender empowerment, strengthened local economy), while minimizing social costs (disempowerment of certain groups due to class differences, ethnicity or gender). Similarly, the framework for screening the ecological/environmental dimension will examine if there is likely to be externalities generated (private gain at public cost) such as through air and water pollution, loss of habitat or species and diminution in ecosystem services.

As part of assessment, key performance indicators will be defined on a case to case basis. These indicators will form the basis to any investment case and shall be monitored on a continuous basis in case of a successful investment.

For general understanding, a broader and more generic outline of this triple bottom line approach is indicated in the figure below. Please note, this is for illustrative use only and does not have any binding implications going forward.



Positioning



Background

Critical Ecosystems Partnership Fund (CEPF) and Social Enterprise

Critical Ecosystems Partnership Fund (CEPF) in collaboration with the Ashoka Trust for Research in Ecology and the Environment (ATREE) has infused its funding in the form of strategic assistance to nongovernmental organizations (NGOs), community groups and other civil society partners to help safeguard the Western Ghats Biodiversity Hotspot as grant-in-aid projects. A total of **USD 6.1 Mn** was invested in the Western Ghats for a period spanning seven years. 67 civil society actors have received CEPF grants, through 103 grants in total.

Through review meetings, the programme collectively adopted a definition of a **green economy** as one that results in increased human wellbeing and social justice, while minimizing the ecological impacts of economic activity. It was felt that the Western Ghats had tremendous potential for the development of a green economy, especially in sectors such as tourism (especially community-based ecotourism), NTFP collection and processing, energy (through PES mechanisms for hydropower projects, for example), and agroindustry. However, it was recognized that current initiatives remain limited in scale and scope, and are not always well integrated or supported by an enabling policy and investment framework.

One area in which there has been meaningful progress with green economy development under the CEPF investment program has been with commodity certification, especially with the coffee and tea industries. One positive development is that the number of estates applying for certification has increased over the past five years, albeit gradually. Another is that the number of certification agencies in India for the SAN standard has increased from one to five over the same period. This indicates increased demand from estates in becoming certified and introduces some degree of price competition. Nevertheless, grantees identified several barriers to wider adoption of certification, not least restrictions on lopping, felling and transporting native timber trees, which create disincentives for estates to replace non-native shade species.

Grantees identified a number of barriers to the wider development of a green economy in the Western Ghats, not least the technical challenges inherent in placing a value on natural capital, and the socio-political challenges of convincing the users of ecosystem services to pay for something they have enjoyed for free for so long. Another barrier was the need to educate consumers about the benefits of sustainability, in order to create market demand. However, participants warned of the risk of 'green washing', whereby a company undertakes purely cosmetic measures in order to brand its business or products as environmentally friendly. Another barrier to developing a green economy is the political power of actors with vested interests in the status quo, who may view environmentally sustainable and socially just business practices as threatening. Finally, a fundamental barrier to the adoption of new models, such as PES mechanisms, is their very novelty and the lack of demonstration projects in the Western Ghats.

Responding to these challenges, grantees emphasized three important lessons. First, the role of government, private sector and consumers are all important, and it is not possible to develop a green economy without addressing all three. Second, there is a high demand for demonstration projects, which, to be scalable, should focus on a particular sector within a particular location. Third, there is a need for investment in building capacity for green economic development, drawing on best practice from around the world.

In a logical follow up, through series of review and consultations it is being recognized that the role of private sector partnerships and mainstreaming the role of bio-diversity conservation through **market mechanism**, is the road ahead and this will require active facilitation with capital markets and funds that are aligned to impact and social investments.

In this context, establishing an accountable and responsible framework of investments is critical in moving forward. And in the process, transform a grant driven ecosystem to a self-sustaining, profit driven, market linked ecosystem. The Natural Capital Fund will be aimed at building a responsible and accountable framework for businesses that will empower organizations to scale operations and build sustainable models in the future.

### Aadhimalai Pazhangudiyinar Producer Company Limited (APPCL)

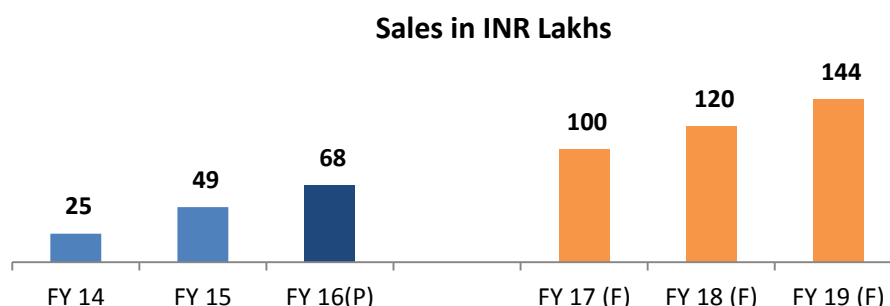
Aadhimalai Pazhangudiyinar Producer Company Limited (APPCL) has been incubated by Keystone Foundation ([www.keystone-foundation.org](http://www.keystone-foundation.org)) in April 2013. The NGO has been working from the past two decades in the Nilgiri Biosphere Reserve on the intersection of environment and livelihood. The intervention has been in 147 villages and the indigenous communities. The community is involved in cultivating coffee, pepper, silk cotton, millets, pulses, cereals, spices and fruits. Further the community is traditionally involved in collecting honey, nelli, shikakai, soap nuts & berries, phoenix leaves seasonally from the adjacent forest. The Producer Company was established due to lack of sustained organised, fair price, marketing of these produce, minimize extreme price fluctuation, and build sustainable harvesting practices.

#### Business Model

APPCL is involved with **procurement and supervising** the value-addition of the products at the **production centres**. Its **marketing channels** are multi-fold:

- Local marketing, through its **5 Honey Huts** the outlets are sale counters located in **Erode and Coimbatore district**
- **32 organic stores in Tamil Nadu, Kerala and Karnataka**
- Its products are **branded and sold through Last Forest enterprise (LFE)**. LFE is a marketing entity incubated by Keystone Foundation and it does **52%** of Aadhimalai product sales, through its own dealer networks across India and 3 Green Shops (Ooty, Coonoor and Kotagiri)

**Keystone continues to invest in community development**, human resource development across producers, providing appropriate technology in cultivation, pre & post-harvest stages through the entire value chain. The **entire paid up capital of INR 58 lakhs** was raised through such initiatives in incubation period. APPCL has at **present 1609 tribal producers where 834 men and 775 women members become share holders**. Addition to this, there are about **365 tribal members** are in the processing of registering their share. All the produce is generated from their homestead farm and traditional forest region. The value addition centres run and managed by Aadhimalai are located within their traditional domain, women members are involved in processing, packaging. The infrastructure is available and appropriate processing machine are available.



### Kadamba Marketing Souharda Sahakari Niyamita Ltd

Kadamba is a Farmers' Cooperative Society registered under Karnataka Souharda Sahakari Act -1997. The society aims to:



- Promote value added agri-products through branding, packing and marketing
- Create awareness regarding remunerative, subsidiary crops as well as regarding value addition to agricultural produce
- Provide training in proper cultivation, harvesting and processing
- Link credit with marketing

Kadamba was started in 2005 with a unique ideological back ground. The thought of giving value to the valuable economic and natural resources of Uttara Kannada gave birth to this organisation. The lack of organized marketing set-up for NTFPs, extreme price fluctuations NTFP's and other agro produces had made the farmers anxious. To add fuel to the fire farmers were in dark regarding marketing and value addition to these produces. In fact, Jack-fruit and most of the NTFPs were neglected due to lack of knowledge regarding their processing and value addition. So it was the need of the hour to provide a platform for processing and marketing of these NTFP & agricultural produces in tune with market demands. This led to the establishment of Kadamba in Sirsi to fulfil the farmers' needs.

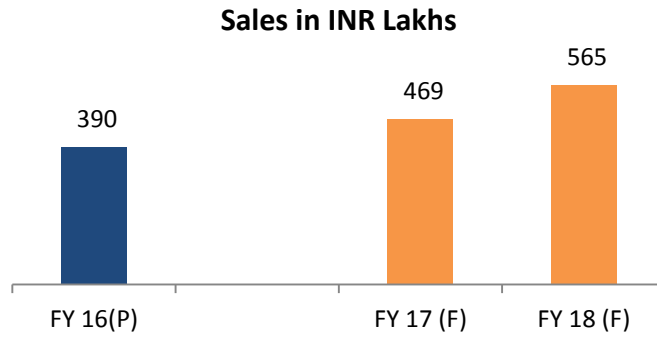
Since inception, Kadamba has been providing a forum for marketing through innovative agro business approaches and to develop entrepreneurial qualities among farmers and SHG'S under co-operative sector. Numerous awareness campaigns and training programmes have been organized by Kadamba over a short span of 8 years; rural folk are becoming conscious about the market developments and are making a living by producing value added items regularly. They are also aware of the rare varieties and their economical and other benefits.

Kadamba, which has been striving to create market for more than 15 NTFPs, has been trying to preserve and promote these crops by linking lab to land as well as land to market. It invests in providing good variety seedlings, conservation of good variety mother trees, development of nursery, organization of two state level scientific training centers to the grafters (to conserve the variety), and arranging *Sasya Sante* (Saplings Fair) for distribution or exchange of quality plants. Kadamba has also channelized SHGs (Self-Help Groups) in expanding the cultivation of these crops and in large scale production of their value added items, by providing necessary inputs to them.

### ***Business Model***

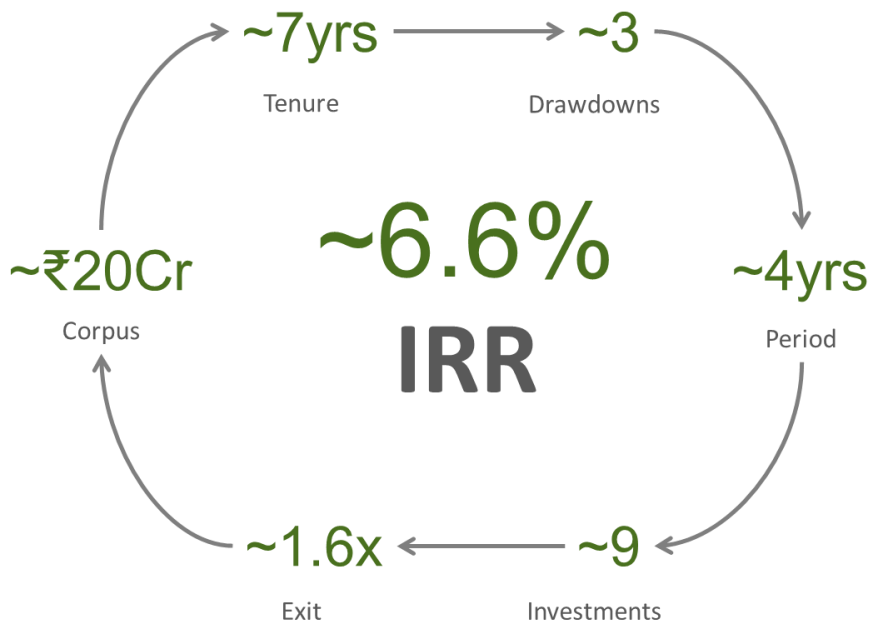
Kadamba has created a platform for processing of these produces in tune with market demands, packing, establishing brand name and marketing. Kadamba has also established processing of NWFP's and other subsidiary garden crops. The key elements to the business model include:

- **Outright purchase**
  - Kadamba purchases the agricultural produces from the farmers, even a minimum quantity of 50 grams, by making the payments immediately. Produce and products are procured from all the share members (2990).
- **Standardization and Grading**
  - The farmers are motivated to raise the quality of their produce and products, which fetch them better remunerative returns.
- **Supply of inputs to agriculture**
  - The members are provided with the necessary inputs essential for cultivation, such as organic micro-nutrients as well as quality seedlings and saplings



This fund – Economics worked out<sup>4</sup>

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<sup>4</sup> Based on certain assumptions and market information; subject to change

# Impact Investing in India

Impact investments in India

Over the last few years, there is a distinctive shift in the way impact oriented businesses have evolved in India. The grant system of sourcing finance has now given way to new dimensions of thought. This has rather improved responsibility, accountability, and stakeholder value creation. There are a number of impact investment funds in India. These funds act beyond providers of capital. They help the companies grow, scale, and build a viable and sustainable business model, but at the same time ensure that social and environmental interests are protected to the extent possible.

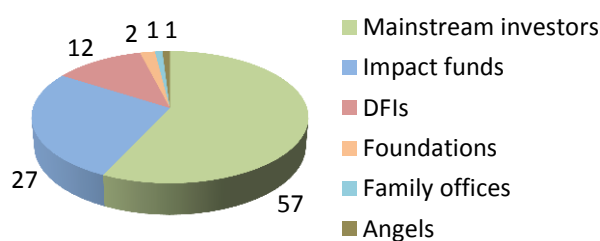
Investments in India are on the rise; and so are impact investments. The PE / VC landscape has transformed the start-up ecosystem here. The Indian market is a key hotspot among emerging markets. Growing domestic consumer market, consumerism and behavioural changes, and rising income level have created a certain surge in consumer oriented businesses. These consumer businesses have fostered growth in allied industries and segments as well. These include: investments into technology, logistics and warehousing, manufacturing, supply chain, and other significant support industries/verticals.

Impact investments have increased, both by deal volume and value. In fact, impact sectors have drawn investments from other mainstream investment funds as well. While opportunities are endless, there is a great degree of hand holding required with the business community. Venture capital finance is not heard of at many circles.

Overview of impact investments among various types of investors

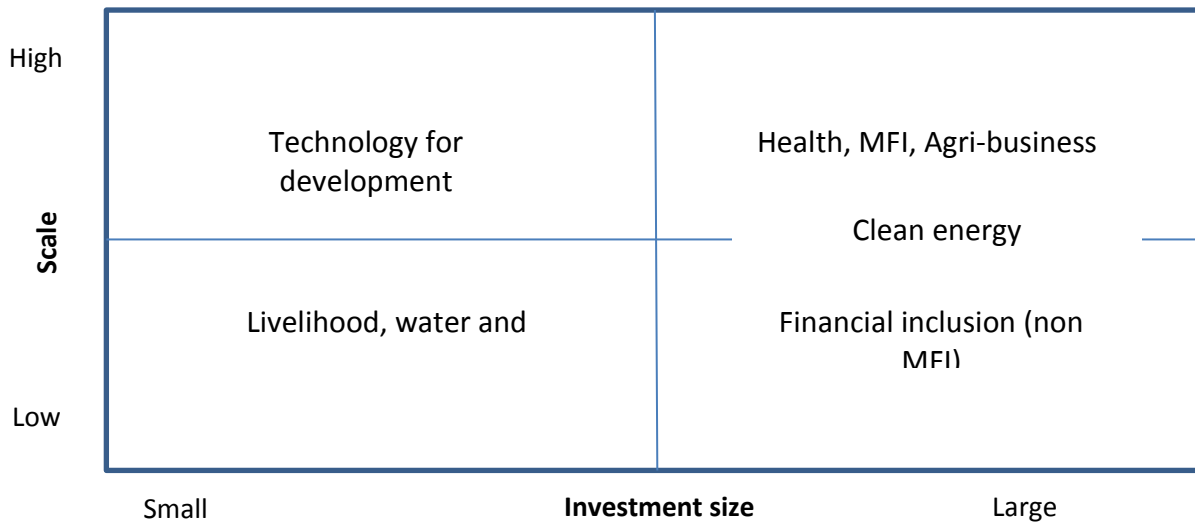
During 2001-14, US\$ 1.6 billion was invested in more than 220 enterprises across India. The various types of investors include the mainstream investors, impact funds, DFIs, foundations, family offices and angels. The investments made by impact funds were around US\$ 435 million, while mainstream VC and PE investors invested around US\$ 906 million. The DFIs, foundations, family offices and angels accounted for the rest.

Investment split among various types of investors in % (2001-14)



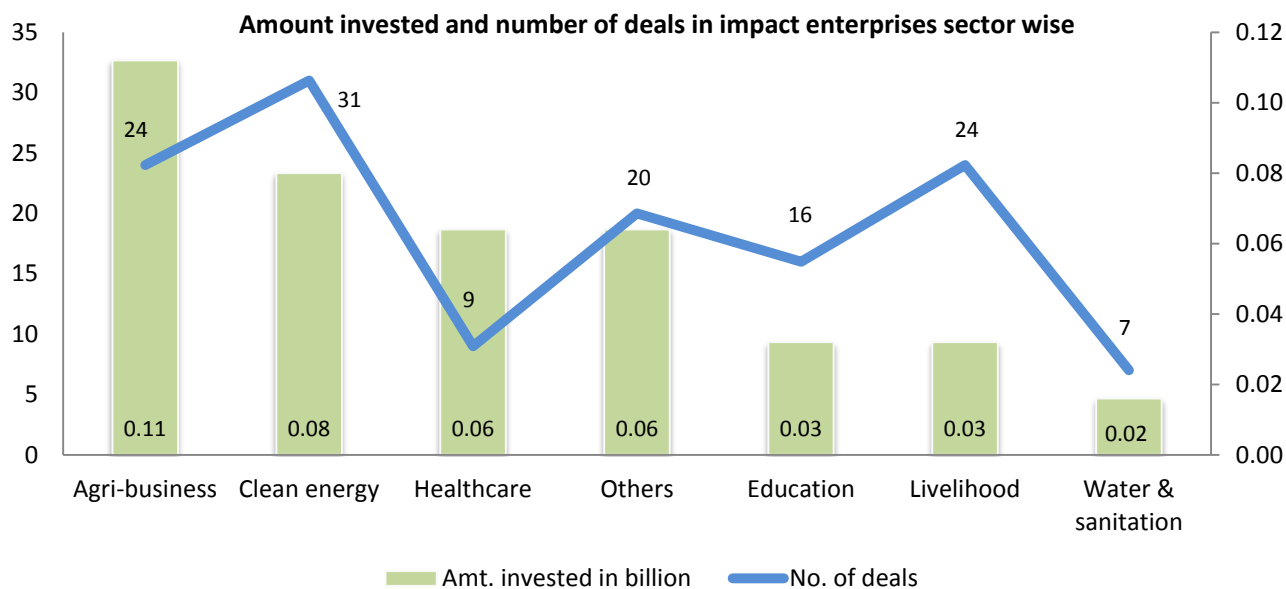
Scale vs. investments

Impact businesses operate in multiple sectors including financial services, healthcare, education, energy, water, agriculture and more. The sectors such as health, MFI, agri-business, clean energy, non MFI and education are considered as the pull sectors as they have a huge demand and attract majority of the investments from impact investors. Enterprises that operate in ‘push’ sectors such as livelihoods, water and sanitation lags behind in investor interest.

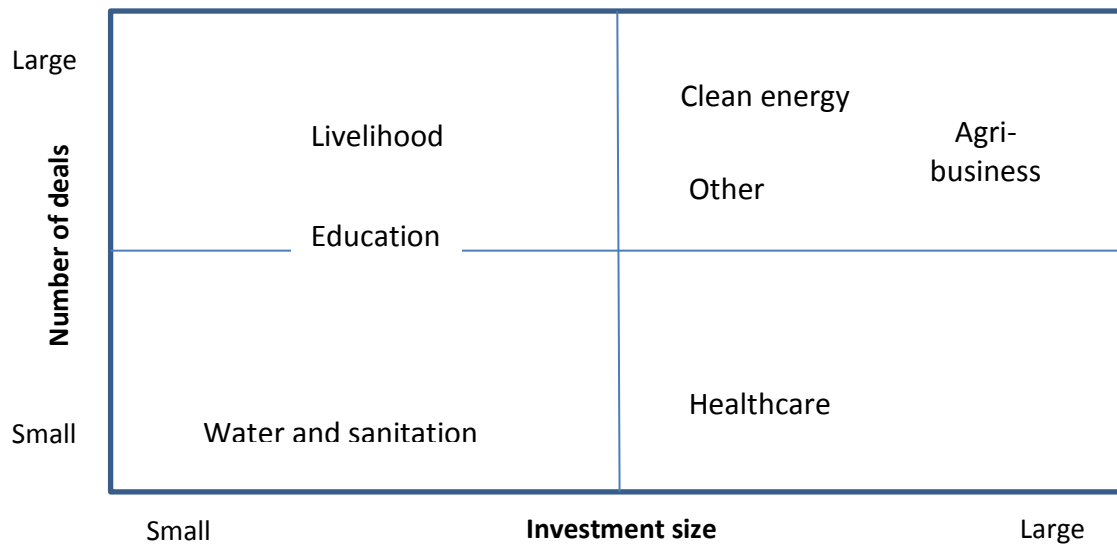


Sector wise split of amount invested and number of deals in impact enterprises

Of the total impact investments made during 2001-14, the MFI and non MFI sectors attracted majority of the deals and investments of US\$ 1.2 billion, while the agri-business, clean energy, healthcare, education, livelihood and water and sanitation sectors attracted investments of around US\$ 0.4 billion.

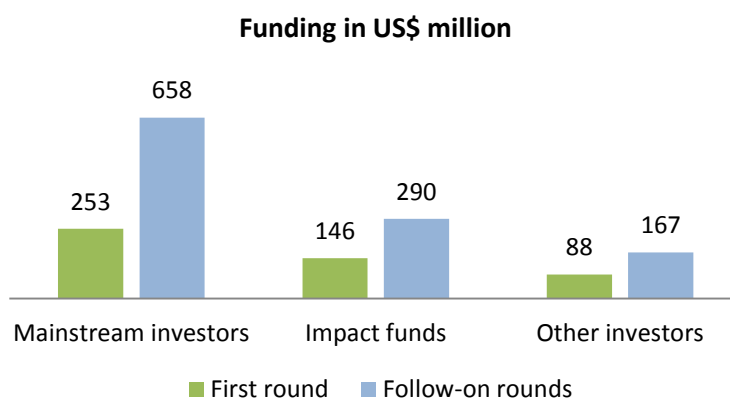


Based on this, the investment size and number of deals for each sector can be plotted on a grid.



Trends in impact investments

The first round of investments received US\$ 487 million and follow-on rounds received US\$ 1115 million from mainstream investors, impact funds and other investors (DFIs, foundations, family offices, angels and angel networks). Impact funds were involved in 136 deals in first round and mainstream investors were involved in 58 deals in first round.

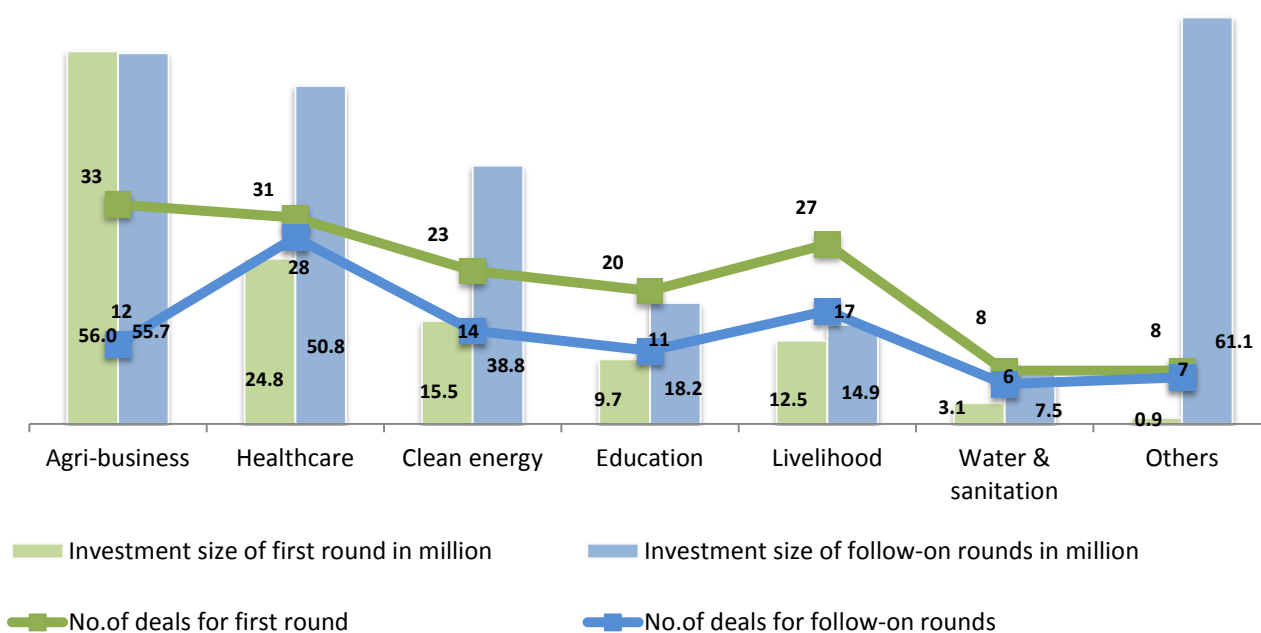


Sector wise trends

Of the total investments US\$ 1.5 billion, first round investments contributed to 26% of total investments and received US\$ 386.5 million. The MFI and non MFI sectors received US\$ 867.7 million.

The follow-on investments contributed to 74% of total investments and received US\$ 1114.6 million. The MFI and non MFI sectors received US\$ 233.5 million.

First & follow-on rounds of impact investments across sectors



Competitive scenario

A number of impact investment funds exist in India. The players in the impact investment funds space are mapped against each of their target sectors. The ability of these investors to take the lead and pull mainstream investors into impact investing has created more value to the landscape. These investors play a pivotal role in syndicating capital into impact enterprises in India. However, there are only about five SEBI registered impact venture funds in India. The other fund houses are either registered abroad or are registered as a general venture capital fund with SEBI.

Social Venture Funds registered in India

- InCube Connect Fund
- SIDBI Social Venture Fund – Government of India initiative
- IFMR Finance from Freedom Social Venture Fund
- Menterra Social Impact Fund
- Maharashtra Laghu Vikas Trust – Government of Maharashtra initiative

Active social venture funds (impact investors) in India

Sectors	Active Impact Investors
Healthcare	Menterra; InCube Connect Fund; Acumen; SIDBI Venture; AAVISHKAAR
Education	Menterra; InCube Connect Fund; Acumen; SIDBI Venture; AAVISHKAAR
Clean Energy	Menterra; InCube Connect Fund; Acumen; SIDBI Venture; AAVISHKAAR
Sustainable Rural Business Innovations	InCube Connect Fund
Micro-finance	IFMR; AAVISHKAAR
Agri-Business	Menterra; Acumen; SIDBI Venture; AAVISHKAAR

<b>Food processing</b>	SIDBI Venture
<b>Bio-Medical</b>	SIDBI Venture
<b>Information Technology</b>	SIDBI Venture
<b>Housing</b>	Acumen
<b>Water</b>	Acumen
<b>Handicrafts</b>	AAVISHKAAR
<b>Technology for Development</b>	AAVISHKAAR



# Sectors and Businesses in Focus

## India: Macroeconomic opportunities

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India has emerged as one of the fastest growing major economies in the world as per the Central Statistics Organization (CSO) and International Monetary Fund. The Indian economy is expected to grow at 7.5 per cent in 2016-17, as per the forecast by IMF.<sup>5</sup> The Indian government's favourable policy regime and robust business environment have ensured that foreign capital keeps flowing into the country. The relaxation of the FDI policy has enabled in raising the foreign investment limit for some sectors, easing the conditions for others and permitting investments in sectors under the automatic route.

India's vast BoP (Bottom of the pyramid) population faces enormous challenges in terms of livelihood and access to basic needs, and presents the largest opportunity for impact capital globally. According to a World Bank estimate, around 32.6% of the Indian population lives below the international poverty line of US\$ 1.25 per day and ~69% of the population lives on less than US\$ 2 per day.<sup>6</sup> The bottom 35% of the population constitutes the ultra-poor, who primarily depend on government welfare programs, subsidies and grants.

Over the last few years, there is a distinctive shift in the way impact oriented businesses have evolved in India. The grant system of sourcing finance has now given way to new dimensions of thought. This has rather improved responsibility, accountability, and stakeholder value creation. There are a number of impact investment funds in India. These funds act beyond providers of capital. They help the companies grow, scale, and build a viable and sustainable business model, but at the same time ensure that social and environmental interests are protected to the extent possible.

As India moves up the growth trajectory, it becomes critical to address the basic needs of the large population at the BoP. Meeting the needs of the burgeoning consumer set in rural and semi-urban areas of India has thus become a focal point for impact funds across the world, where there is an opportunity to get attractive financial returns in addition to creating a social impact. In the recent years, impact investing has become prominent on the global stage as an approach to deploying capital with social / environmental goals as well as financial return objectives. Impact investments are made across a range of sectors and asset classes and are deployed in both developing and developed markets. The opportunity for impact through the deployment of capital into organizations and enterprises that increase incomes, create jobs, and provide access to essential services is significant and the status of the impact investing industries in these countries is worthy of attention.

The government is the largest provider of capital for social development initiatives in India. The Government social spending in 2012-13 was around US\$ 100 billion,<sup>7</sup> thus possessing an inability to meet the vast need at the BoP. India's public expenditure as a percentage of GDP is much lower when compared to the BRICS countries.

The private sector enterprises cater to the BoP population and engage with them as producers, customers, employees or entrepreneurs, thereby improving the access to essential services. In some sectors, they compete with the Government in the provision of basic services. In other sectors, they work with the government (through PPP).

Impact enterprises have a strong presence in Southern India. The Western region (Maharashtra, Gujarat and Rajasthan) also hosts a large number of impact enterprises, with Maharashtra being the leading state

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<sup>5</sup> India brand equity foundation report

<sup>6</sup> IntelleCap report, stated as according to a World Bank estimate 2010

<sup>7</sup> IntelleCap report

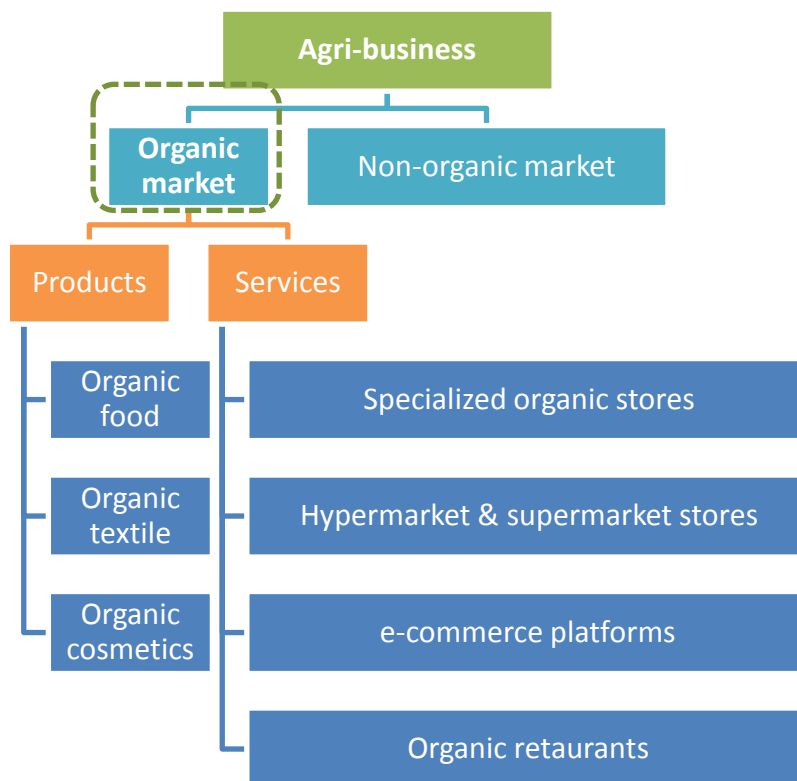
and comprising about 35% of all impact enterprises in the country. The low-income states in North India are among the higher potential states because of the presence of a large BoP population. Owing to the prevailing low population density, poor law and order situation, inefficient infrastructure, impact enterprises are yet to make any significant presence in the North Eastern states, Himachal Pradesh and Jammu & Kashmir.

**Natural Capital Fund: Sectors of Focus**

The new fund will make investments into companies/organizations that will have emphasis on a triple bottom line approach. THE PROMOTERS believe that there is immense opportunity for capital consumption in the following sectors in the years to come.

Sectors	Sub-sectors
<b>Organic market</b>	Food retail Food products Non-food products
<b>Veterinary public health</b>	
<b>Eco tourism</b>	Home stay Wild tourism
<b>Waste Management</b>	
<b>Medicine / Cosmetics / Wellness</b>	
<b>Non timber wild collected forest products</b>	
<b>Technology</b>	Skill Development Packaging
<b>Handicrafts</b>	

**Agri-business sector**



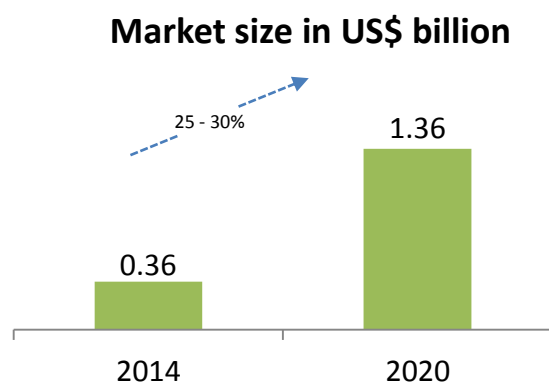
The agri-business sector can be broadly classified into organic market and non-organic market. The key difference between them stems directly from the farming methods used during the production.

The organic market in India is still at a nascent stage and has a long way to go. However, India is emerging as a potential destination for organic farming due to growing number of certified farmlands, as well as diverse climatic conditions and soil types in different states across the country. The total area under organic certification during 2015-16 is **5.71 million hectares**. This includes 26% cultivable area with 1.49 million hectares and rest 74% (4.22 million hectares) forest and wild area for collection of non-timber forest products. During 2015-16, India produced around **1.35 million metric tons** of certified organic products which includes all varieties of food products namely sugarcane, oil seeds, cereals & millets, cotton, pulses, medicinal plants, tea, fruits, spices, dry fruits, vegetables, coffee etc.<sup>8</sup>

### Organic food market

Demand for food is certain to increase with increasing population pressure and income, even though this demand and ability to supply the demand are not equal in all communities. Hunger, poverty and environmental degradation persist even as concerns about global human security issues continue to increase. Organic farming is an alternative way to overcome the problems of sustainability, global warming and food security. Organic production systems are based on specific standards precisely formulated for food production and aims at achieving agro ecosystems, which are socially and ecologically sustainable.

Honeys, tea, spices, coffee, oilseed, pulses, food grains, milk, ghee, fruits and vegetables, etc., are among the products with demand in India. Rising awareness about the benefits of consuming organic food products coupled with rising health concerns is driving the consumption of organic food products in India. The size of the organic food market, which is highly unorganized, was around US\$ 0.36 billion during 2014, with organic pulses and food grains acquiring the lion's share of the market. The market for organic food in India is anticipated to reach US\$ 1.36 billion at a CAGR of 25-30% during 2015-2020.<sup>9</sup>



A section of consumers in India are becoming increasingly health conscious, which has resulted in a change in their preferences. A shift in consumption of organic food in place of conventional food in order to avoid adverse health effects of chemical preservatives present in non-organic food, higher disposable income, growing number of certified organic farmlands and increasing number of retail outlets across the country are the major growth drivers for the organic food segment.

India has competitive advantages in the world markets due to low production costs and availability of diverse climates to grow a large number of crops round the year. Majority of the demand for organic foods is originating from Tier 1 cities such as Mumbai, Delhi, Chennai, Bangalore, Gurgaon and Pune. Companies are witnessing increase in sales as a result of increasing demand from metro cities and several new players in the organic food market offering an online channel for purchase.

<sup>8</sup> Agricultural & processed food products export development authority (APEDA)

<sup>9</sup> The economic times, stated as the study prepared by industry body Assocham and TechSci Research

Though high prices of organic food are hindering widespread adoption, producers are increasing their focus on reducing the price differential between organic and inorganic food products. As demand for organic food products rises, increase in production and economies of scale would result in reduced cost of production, further driving growth in India organic food market over the next few years. The supply chain is shaping up to cater to the demand. Changing from conventional to organic production is a regulated process. Organic producers must use a longer crop rotation than conventional production. It takes about three years to convert a field from conventional to organic. An organic food company, which obtains the organic certification, usually works with a group of farmers. The company provides those farmers with support in terms of inputs and education in organic growing practices. It also assures the buyback of the crop throughout the conversion process. Companies also incentivize farmers by engaging them in growing more crops that can be sold as organic, instead of having single crop operations.

Organic food is one of the focus areas for the Indian Government. In India, the Agricultural and Processed Food Products, Export Development Authority (APEDA) regulates the certification of organic products according to the National Standards for Organic Production (NSOP). The NSOP standards are recognised by the European Commission and Switzerland as equivalent to their countries standards. Similarly, the USDA has recognized NPOP conformity assessment procedures of accreditation as equivalent to that in the US. This certification makes it possible to export organic products from India. Organic food products manufactured and exported from India are stamped with the India Organic certification mark issued by the APEDA, which has recognized inspection certification bodies, some of which are branches of foreign certification bodies while others are local bodies.

### **Organic textile**

India's Agricultural and Processed Food Products Export Development Authority (APEDA) developed Indian Standard for Organic Textile (ISOT) under the National Standards for Organic Production (NSOP) which will provide a major boost to the textile industry (cotton and silk) as well to the producers and manufacturers of these products. This standard for organic textiles covers the cultivation and production of organic fibres, and the manufacturing, processing, packaging, labelling and distribution of organic textiles. The final product may include fibres, yarns, fabrics, made-up and garments including home textile products. Textile products that are produced and manufactured in compliance with this standard shall be certified under the National Programme for Organic Production (NPOP). Global Organic Textile Standard (GOTS) is recognized as the leading processing standard for textiles made from organic fibres worldwide. It defines high level environmental criteria along the entire supply chain of organic textiles and requires compliance with social criteria as well. According to GOTS, all phases of organic fibre and fibre production must be inspected and certified in order to obtain the certification label 'organic'.

Organic cotton is presently produced in more than 20 countries around the world in all the continents and especially in countries like India, Syria, Turkey, China, US and others. Organic cotton is grown using methods and materials that have a low impact on the environment. Organic production systems replenish and maintain soil fertility. Organic cotton is grown without the use of toxic and persistent pesticides and synthetic fertilizers and it should also be free of genetically modified organism (GMO).

The concern for a life devoid of the use of extremely harmful toxic chemicals, the need for an eco-friendly industrial and agricultural culture and an increasing awareness of depleting natural resources and the consequences are the factors that shape the life styles of people worldwide.

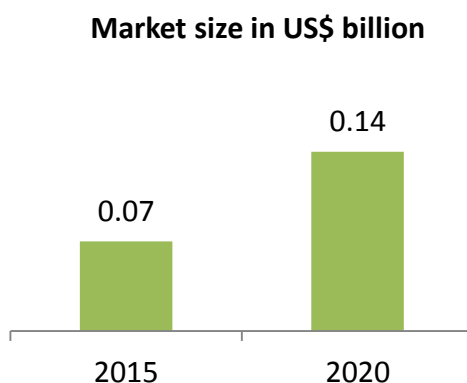
Organic silk is produced by silkworms, which produce cocoons and grow on trees. Cocoons feed on leaves that are grown without the application of any chemical or exposure to insecticides, pesticides or synthetic fertilizers. Silk worms possess especially modified salivary glands which produce fibroin, a clear, viscous, protein-rich fluid. The silk worm, during its life-cycle, rotates its body in the form of figure eight, some 3,

00,000 times to construct a cocoon that generates nearly a km of silk filament. After processing, it is fabricated into yarns. Organic silk is produced by cocoons reared on forest trees and fed with leaves that are natural organic plants grown with vermi-compost without the help of pesticides and chemical fertilizers. Vermi-compost is produced by earthworms feeding on biological waste and plant residue.

### Organic Cosmetics

Organic personal care products are manufactured from natural ingredients extracted from plants, herbs and flowers under eco-friendly conditions. Organic products are free from harmful synthetic chemicals, parabens, sulphates, artificial colours and fragrances.

The organic cosmetics market was US\$ 0.07 billion during 2015 and is expected to reach US\$ 0.14 billion by 2020.<sup>10</sup> Increasing awareness towards beauty and wellness, rapidly changing life-style, rising concerns for health safety, growing consumer awareness towards the hazards of synthetic chemicals has fuelled the demand for organic personal care products. These factors boost the market share of organic skin care products in India.



The players in the organic cosmetics segment include Azafran organics, SkinYoga, Purearth, SoulTree, and Inveda. The other key players in the organic market include:

- ✓ Players that have their presence in India and globally
  - Organic India - Standalone outlets, hypermarket & supermarket stores, online stores
  - Conscious Food - Standalone outlets, hypermarket & supermarket stores, online stores
  - 24 Mantra - Standalone outlets, hypermarket & supermarket stores, online stores
  - Fab India - Standalone outlets, online stores
- ✓ Players that have their presence in India
  - Morarka organics - Standalone outlets, hypermarket & supermarket stores, online
  - Ecofarms organics - Hypermarket & supermarket stores
- ✓ Players in the online stores space
  - Ecotokri.com, Organic shop, isayorganics, Farm2kitchen
- ✓ Players in the standalone outlets and online stores space
  - The Altitude store, Delhi; Navdanya; Organic garden; Organic haus; Mother India Farms, Bangalore

<sup>10</sup> Express Pharma, value given in INR and conversion rate assumed at 1 US\$ = 67 INR

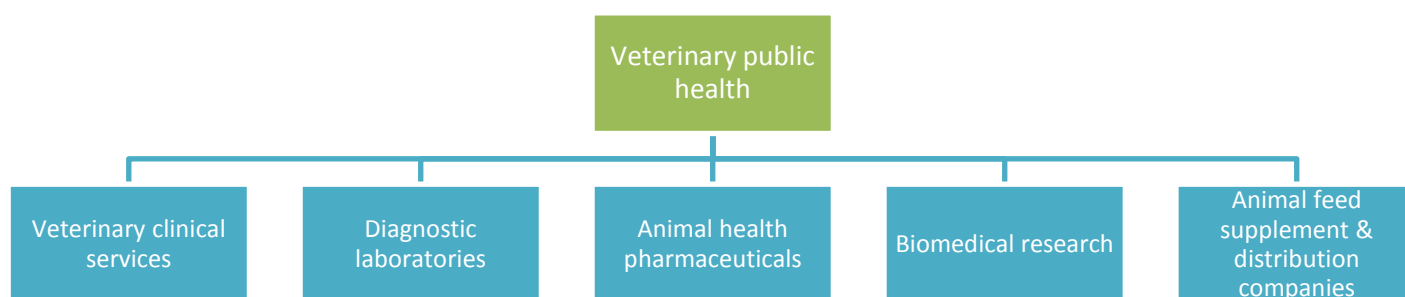
### Organic restaurants

As people are becoming increasingly health conscious, it is necessary to make the available food healthy, nutritious and affordable. This means that everything that is served at the restaurant is produced by organic growers and farmers. Restaurants will have to ensure that all the ingredients i.e. vegetables, fruits, grains, spices, condiments, tea, coffee etc. are from organic sources. In the eventuality of not being able to source completely organic ingredients, restaurants opt for a mid-way in sourcing a few ingredients from regular markets. There are also restaurants that use produce from their own farms.

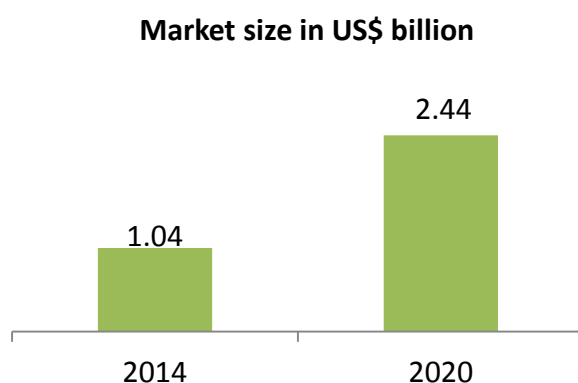
The players across various states in the organic restaurant market include, Delhi: Navdanya, Fire-the park; Hyderabad: Organic express, Millet cave, Organic bites; Bangalore: Rasa India, Lumiere organic restaurant, Carrots health food restaurant, Green theory, Yogi-sthaan café; Mumbai: Birdsong-the organic café, The Pantry, the Yoga house; Kolkata: Café organica.

### Veterinary public health

The veterinary public health sector includes the farm animals, companion animals and poultry.



The Indian veterinary healthcare market during 2014 was estimated at US\$ 1.04 billion and is expected to grow at a CAGR of 15.27%, thus reaching US\$ 2.44 billion by 2020.<sup>11</sup> The importance of livestock animals is generating growth in the animal healthcare market because of an increase in the consumption of meat and dairy products by people. The major factors driving the market are increase in the love for pets and awareness for animal health. There have been continuous innovations and technological advances in development of animal health drugs.

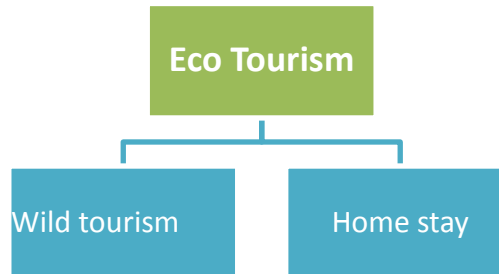


The new type of diseases in animals and their subsequent transfer to humans via animal food product consumption and companionship are escalating the veterinary healthcare industry globally. Veterinary public health (VPH) effectively addresses issues on the human-animal interface. Awareness regarding safe food production particularly of animal origin, controlling transmissible infections between vertebrate

<sup>11</sup> PR Newswire

animals and man (zoonoses), environment preservation, facts about diseases of productive process, promoting human values in society and protecting the health of companion animals are being addressed in order to prevent urban health hazards. Rural communities are prone to zoonotic infections due to intimate contact and association between man and livestock. There are about 300 zoonoses distributed throughout the world with many of them existing in India.

#### Eco tourism



The travel and tourism sector are the major sources of foreign exchange earnings for many developing countries and it also holds strategic importance in the Indian economy by providing several socio economic benefits. Eco tourism is still at a very nascent stage and is a growing niche market within the large travel industry and is based on the concept of sustainable tourism or eco-friendly tourism. The country is trying to promote tourism in a manner by generating considerable revenue without disturbing the delicate eco-system in the region. This type of tourism is extremely essential for India considering the fact that it has one of the richest bio diversities in the world.

India is a land of geographical diversities with an amazing scenic beauty, mountainous ranges of Himalayas, golden beaches, impenetrable forests and plenty of water bodies along with rich blend of culture provoke people across the world to tour India. Ecotourism is the best way to enjoy the nature's charisma without harming it.

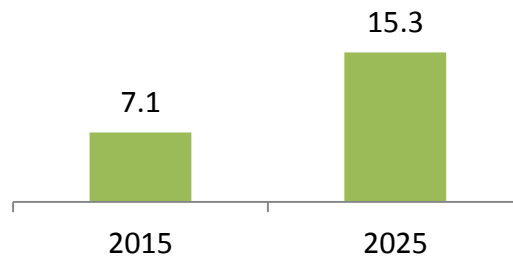
Rising awareness of global warming across the world, favourable growth in the Indian economy, rise in middle class population and increasing levels of disposable income are some of the driving forces of the industry. The idea of adventure has also become a trend in the youth which is also acting as a driver for the market. With more than 65 per cent of the Indian population falling in the age group of 15-64 years<sup>12</sup>, Indian travellers are more open to holidays and are keen to explore newer destinations. The industry is thriving due to an increase in foreign tourist arrivals and greater number of Indians travelling to domestic destinations than before. There were over 7.1 million foreign tourist arrivals in 2015 and it is expected to reach 15.3 million by 2025.<sup>13</sup> However, ecotourism is a niche market and involves significant amount of expenditure when compared to mass tourism which is restraining the market as a whole. Moreover, ecotourism involves visiting unexplored areas which can be insecure and thus many travellers prefer the traditional tours in such cases. This is in return hindering the market.

<sup>12</sup> KPMG, travel and tourism sector, 2013

<sup>13</sup> India brand equity foundation report - Tourism and hospitality industry



### Growth in foreign tourist arrivals (Mn)



The players in this sector include,

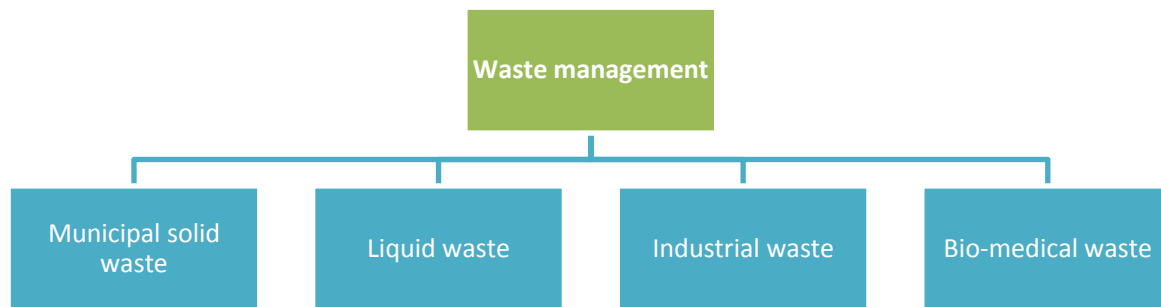
- ✓ Wildrift adventures  
Trekking in Kumaon Himalayas; Paragliding – hilltop flying with view of the snow covered Himalayan peaks; Wildlife Safar – jungle camp outs, sunrise bird trek; Mast Pahadi – experience the facets of the Himalayan life
- ✓ Aquaterra adventures  
Trekking; River rafting; Kayaking; Safaris; Camps
- ✓ Questrails  
Trekking; River journeys; Angling; Family adventures; Culture tours; Camp rapid-fire
- ✓ Top camp  
Camps; Wildlife; Trekking
- ✓ TourIndia  
Tree houses; eco-lodges; cave-house; houseboats

There are legal and policy frameworks that have the potential to regulate ecotourism. The laws pertaining to ecotourism are the environment and forest laws and it includes the Wild Life Protection Act 1972; Forest Conservation Act 1980 and Environment Protection Act 1986. The various policy frameworks are National Biodiversity Strategy and Action Plan; National Environment Policy 2006; Ecotourism Policy & Guidelines 1998.

#### Waste Management

Growth in the Indian economy has resulted in a rapid increase in both the domestic and the industrial waste. Increases in urbanization, rapid growth in the Indian industry are the main drivers for the waste generation. The practices of uncontrolled dumping of waste on the outskirts of towns and cities have created serious environmental and public health problems that threaten water quality and urbanization itself. Lack of financial resources, improper choice of technology and lack of interest of public towards waste has made the prevalent system of waste management far from satisfactory. Therefore, an efficient waste management system should be set up for balancing the objectives of development and environment sustainability.

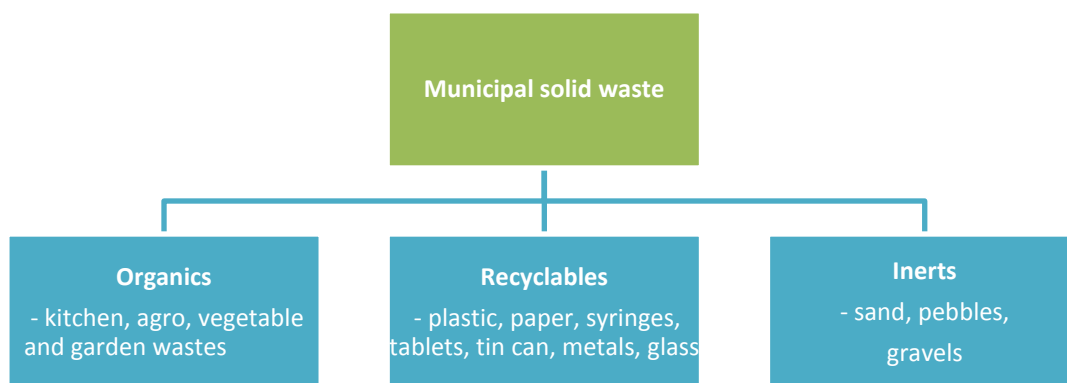
The waste generation can be broadly classified as,



**Municipal solid waste (MSW)**

MSW consists of household waste, wastes from hotels and restaurants, construction and demolition debris and waste from debris. In India, the biodegradable portion dominates the bulk of MSW. This is mainly due to food and yarn waste. With rising urbanization and change in lifestyle and food habits, the amount of municipal solid waste has been increasing rapidly and its composition has been changing.

More than 55 million tons of MSW is generated in India per year, with the yearly increase estimated to be about 5%. The solid waste generated in small, medium and large cities and towns in India is about 0.1 kg, 0.3-0.4 kg and 0.5 kg per capita per day respectively. The estimated annual increase in per capita waste generation is about 1.33 % per year.<sup>14</sup>



The value chain in solid waste management system in India includes the following elements:

- ✓ Waste generation and storage
- ✓ Segregation, reuse and recycling at the household level
- ✓ Primary waste collection and transport to a transfer station or community bin
- ✓ Street sweeping and cleaning of public places
- ✓ Management of the transfer station or community bin
- ✓ Secondary collection and transport to the waste disposal site
- ✓ Waste disposal in landfills

In most of the Indian cities, the MSW collection, segregation, transportation, processing and disposal is carried out by the respective municipal corporations and the state governments enforce regulatory policies. Open dumping is a common practice which adversely affects the environment and public health. The MSW is managed by a) Ministry of Environment and Forests (MoEF) b) Ministry of Urban Development (MoUD) (c) Central and State Pollution Control Boards (d) Department of Urban Development (e) State Level Nodal Agency and (f) Urban Local Bodies.

<sup>14</sup> Energy Alternatives India (EAI)

Energy can be recovered from the organic fraction of waste (biodegradable as well as non- biodegradable) through thermal, thermo-chemical, biochemical and electrochemical methods. Incineration of RDF pellets for power generation and Biomethanation are currently the preferred technologies for converting MSW to energy in India. The total potential for power from all MSW across India was about 1457 MW during 2002 and is estimated to be about 5,200 MW by 2017.<sup>15</sup>

## Liquid Waste

### *Sewage*

Sewage is the untreated municipal liquid waste that requires treatment in a sewage treatment plant. Sewage contains about 99.9% of water, while the remaining content may be organic or inorganic. Sewage denotes both black water and grey water at the household level, where black water refers to waste water generated in toilets and grey water to the waste water generated in kitchen, bathroom and laundry. Sewage sludge is the semi-solid precipitate produced in wastewater treatment plants. Such sludge can also occur in untreated sewage disposed of into lakes and other water bodies.

Sewage treatment is the process that removes the majority of the contaminants from waste water or sewage and produces both a liquid effluent suitable for disposal to the natural environment and sludge. The total sewage generation from urban centers in India is around 38 billion litres a day, while the total sewage treatment capacity at present is estimated to be around 12 billion litres a day.<sup>16</sup> Sewage sludge generation in India is increasing at a faster rate as more and more sewage treatment plants (STP) are being developed. The sewage sludge and effluents from these STPs are frequently disposed of on agricultural lands for irrigation / manure purposes.

In India, wastewater disposal systems are usually managed by local bodies. In a few specific cases, these are managed by State Government Departments / Statutory Boards set up by State Governments. This service facility falls under the water supply and sanitation sector.

Sewage is a potent waste from urban sources generated in bulk quantities, suitable for energy generation. However the source is highly diluted in nature and materials attain complexity during its course of travel from multiple points of origin. Therefore it demands for primary treatments in centralized treatment facilities. The technologies for sludge management include gasification, pyrolysis and incineration. The total potential from sewage sludge was about 226 MW during 2002.<sup>17</sup>

The challenge of sanitation in Indian cities is acute. With very poor sewerage networks, a large number of the urban poor still depend on public toilets. Many public toilets have no water supply while the outlets of many others with water supply are not connected to the city's sewerage system. Septic tanks are one of the common forms of urban sanitation facilities in India. Other commonly used on-site sanitation systems in India include pit or vault or tank latrines. The prevalence of onsite sanitation varies dramatically from state to state, with as many as 80% of toilets connected to septic tanks in the states of Orissa and Rajasthan. Major part of urban India has not been connected to municipal sewer system, which makes people dependent on the conventional individual septic tanks.

Sludge of variable consistency collected from on-site sanitation systems, such as latrines, septic tanks and aqua privies is denoted as faecal sludge. Faecal sludge from septic tanks is specifically termed as septage. The faecal sludge comprises varying concentrations of settle able or settled solids as well as of other, non-

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<sup>15</sup> Energy Alternatives India (EAI), stated as Ministry of new and renewable energy estimates

<sup>16</sup> Energy Alternatives India (EAI)

<sup>17</sup> Energy Alternatives India (EAI), estimated figure

faecal matter. In most of the cities, only crude and unhygienic septage handling practices exist and there is no proper municipality infrastructure that performs the task of septage management.

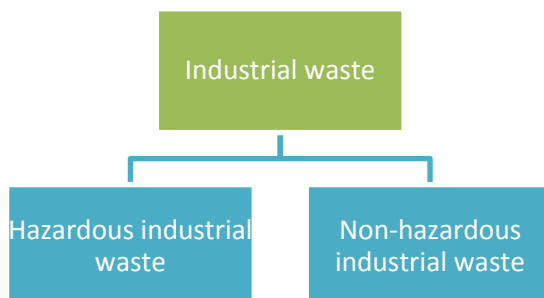
Faecal sludge is a potent medium for energy derivation. The total power potential has been estimated to be about 3600 MW from the 0.12 million tons of faecal sludge generated in India.<sup>18</sup> Biomethanation and incineration are the processes used widely for energy recovery from faecal sludge. In India Biomethanation is the process that is commercially established. The Pyrolysis technology is an attractive future alternative as its end products, bio-oil and bio char, could fetch the highest monetization in the market.

### Industrial waste

Thousands of small scale and bigger industrial units simply dump their waste, more often toxic and hazardous, in open spaces and nearby water sources. Over the last three decades, there were many cases of serious and permanent damage to environment by these industries.

Rapid industrialization has resulted in the generation of huge quantity of wastes, both solid and liquid, in industrial sectors such as sugar, pulp and paper, fruit and food processing, sago / starch, distilleries, dairies, tanneries, slaughterhouses, poultries, etc. Despite requirements for pollution control measures, these wastes are generally dumped on land or discharged into water bodies, without adequate treatment, and thus become a large source of environmental pollution and health hazard.

Industries generating solid waste have to manage such waste by themselves and are required to seek authorizations from respective State Pollution Control Boards (SPCBs).



### Hazardous industrial waste

Hazardous wastes, are generally in liquid or gaseous form, and causes danger to health or environment, either alone or when in contact with other wastes. It is presumed that about 10 to 15% of wastes produced by industries are hazardous and the generation of hazardous wastes is increasing at the rate of 2 to 5% per year.<sup>19</sup> Hazardous waste includes products that are explosive, flammable, irritant, harmful, toxic, carcinogenic, corrosive, infectious, or toxic.

### Management and treatment options for hazardous waste

There are a large number of hazardous wastes generating units located in India. About 11,138 units have been given authorization by Sate pollution control boards (SPCBs) under Hazardous Waste (Management and Handling) Rules, 2003. In India, about 4.43 million tons of hazardous wastes are generated annually,

<sup>18</sup> Energy Alternatives India (EAI)

<sup>19</sup> Energy Alternatives India (EAI)

out of which 71,833 tons are incinerable.<sup>20</sup> There is a need to explore the possibility of using such wastes by other industries.

- Incineration
  - Incineration helps in reducing the toxicity and volume of the waste before it is finally destined for landfills. The process wastes from chemical unit operations are treated in properly designed incinerators.
- Hazardous wastes (secured) landfill
  - Hazardous waste landfill site is designed to avoid soil and water pollution / contamination in the area near the vicinity of the landfill site

### ***Non-hazardous industrial waste***

Non-hazardous or ordinary industrial waste is generated by industrial or commercial activities. It is not toxic, presents no hazard and thus requires no special treatment. It includes ordinary waste produced by companies, shopkeepers and trades people (paper, cardboard, wood, textiles, packaging, etc.). Due to its non-hazardous nature, this waste is often sorted and treated in the same facilities as household waste.

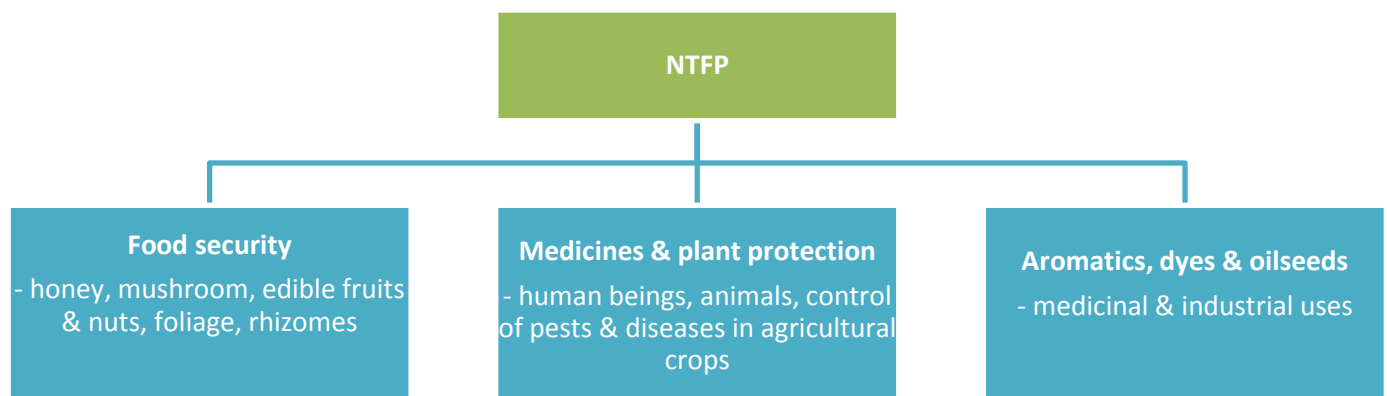
### **Bio-Medical waste**

Bio-medical waste means any waste generated in health care processes like diagnosis, treatment or immunization of human beings or animals. The categories of bio-medical waste include human and animal anatomical, microbiological and biotechnology, discarded medicines, cytotoxic drugs, incineration ash, chemical related waste.

The Bio-medical waste (Management and Handling) Rules regulate the manner of disposal of bio-medical wastes. These rules are applicable to hospitals, nursing homes, clinics, pathological laboratories, dispensaries, veterinary institutions, animal houses and blood banks. The Bio-medical waste should be handled in a manner where it does not cause any adverse effect to human health and environment and is disposed according to the prescribed standards. Treatment facilities like incinerator, autoclave and microwave system should be setup for the treatment of bio-medical waste.

The wastes generated from disposable items such as tubing, bottles, syringes and needles are recyclable. Energy, diesel and fuel oil can be recovered.

Non timber forest products (NTFPs)



<sup>20</sup> Energy Alternatives India (EAI)

Forests have been providing substantial support to rural economy. With fast depletion of the forest resources, the livelihood of the rural poor and the tribal families living in and around the forests is further threatened. In India, out of the total land area of 329 million hectares, only 77 million hectares are classified as forests. This represents only 22% of the total geographic area as against the recommended forest coverage of 33%. The actual green cover is confined to only 12% of the geographic area. Due to such reduction in the forest cover, there has been severe scarcity of fodder, fuel wood and water and destruction of flora and fauna.

A large number of plant species are under severe threat, facing extinction. With drastic reduction in the income from minor forest produce, unemployed local people are indulging in illicit felling of trees to sustain their livelihood. Therefore, promotion of Non-Timber Forest Products (NTFP) species, through productivity improvement and value addition is necessary to reverse this trend and to sustain the livelihood of the rural families, who have been dependent on NTFP since ages.

Non-Timber Forest Products (NTFPs) play a vital role in livelihood of people in and around the forests. NTFPs called as minor forest products refers to the biological materials which are collected from the natural forests for commercial, industrial or subsistence use.

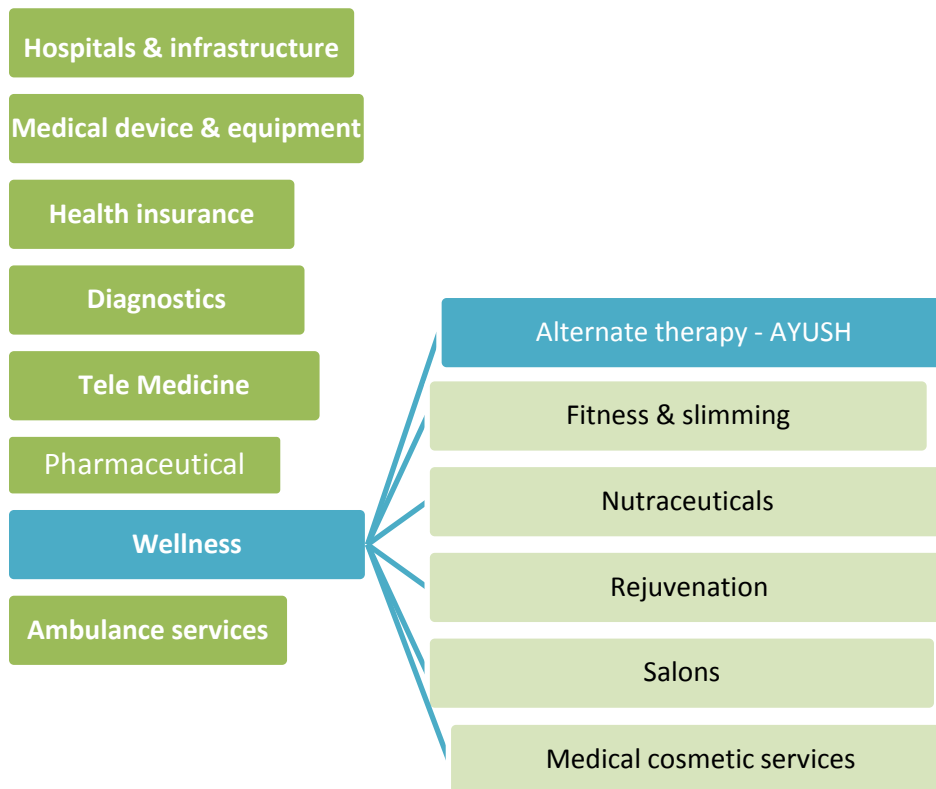
Traditional and ancient knowledge about utilization of natural resources still exists in many parts of India. NTFPs are considered to be important for sustaining rural livelihoods, reducing rural poverty, biodiversity conservation, facilitating rural economic growth and are an integral part of day-to-day livelihood activities of tribal people. In India over 50 million people are dependent on NTFPs for their subsistence and cash income. This provides 50 % of household income for 20 to 30 % of rural population particularly for tribal. Thus, NTFPs form one of the mainstays of income and sustenance for many tribal communities.

### ***Value Chain***

An NTFP value chain can be broken down into several sub-sets of activities i.e. production, collection, processing, storage, transport, marketing, and sale. The relative importance of each of these differs from product to product, they may not occur sequentially and some may even be repeated or omitted for particular products. Storage, processing and transport, in no definite order, may be more or less complex depending on where the product is produced, the nature of the product, the degree of processing, and the consumer requirements.

The Ayurvedic industry, mostly plant based materials is one of the largest consumers of NTFPs. With the growth in the India Ayurvedic industry and the herbal domestic market, the demand for these raw materials is also expected to increase. In India, with 70% of the forest export revenue generated from NTFPs, its sustainable management through mechanisms such as certification is being considered a priority.

Healthcare industry

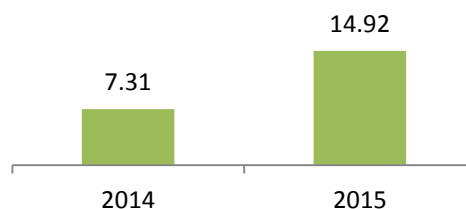


India has an unmatched heritage represented by its ancient systems of medicine which are a treasure house of knowledge for both preventive and curative healthcare. The demand for Ayurveda, Yoga, Naturopathy, Unani, Siddha and Homoeopathy (AYUSH) and herbal products is surging in India and abroad. Indian systems of medicine and homoeopathy particularly Ayurveda and yoga are widely recognized for their holistic approach to health and capability for meeting emerging health challenges. These systems are playing an important role in achieving the national health outcome goals of reducing Maternal Mortality Rate (MMR), Infant Mortality Rate (IMR), malnutrition, and anaemia.

India has a vast reservoir of natural flora and fauna and also ancient texts and knowledge that have made it an authority in the field of AYUSH. India has over 8000 medicinal plants found in the Himalayan region, around its coastline, deserts and rainforest eco-system. In many places in India, the Indian systems of medicine and homoeopathy continue to be widely used due to their accessibility and sometimes, because they offer the only kind of medicine within the physical and financial reach of the patient.

The AYUSH sector is dominated by micro, small and medium enterprises, located in identifiable geographical clusters. The biggest markets for Indian herbal products are Western Europe, Russia, USA, Kazakhstan, UAE, Nepal, Ukraine, Japan, Philippines and Kenya.

**Growth in AYUSH sector in US\$ billion**

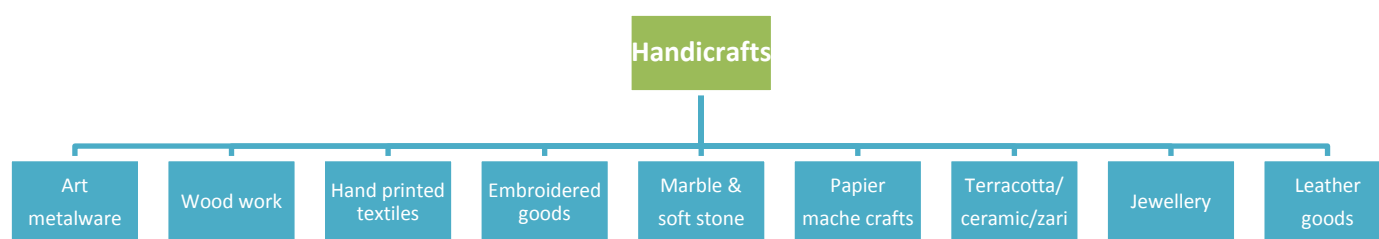


Ayurveda is one of the oldest forms of treatment which traces its origin to India. Ayurveda has a unique therapy called Panchkarma which is beneficial for preventive / promotive health and also for treatment of many chronic lifestyle disorders.

The demand for yoga across the world is growing exponentially. Yoga is widely recognised and practiced in Asian as well as Western countries. Yoga is a drugless system and can be applied as independent modality or as an add-on therapy with other systems. Several yoga centres have been established across the globe during the last 4-5 decades.

The main reasons for the surge in demand for AYUSH is related to the escalating costs of conventional health care and the adverse effects of chemical based drugs and increasing lifestyle disorders. Patanjali Yogpith, Dr Batra's, Dabur, Himalaya, Arya Vaidya Sala Kottakkal, Aimil, Arya Vaidya Pharmacy, Oushadhi, Pankaj Kasturi and Nagarjuna are some of the players in the market. The regulatory bodies include Central Council of Indian Medicine and Central Council of Homoeopathy.

### Handicrafts



India's rich culture and heritage are reflected in the exquisite and varied handicrafts made by artisans throughout the country. Indian craftsmen use the knowledge and skill in the craft that were passed on to them from the previous generations, to create works of art. The objects are created with a great creativity that portrays magnificent work of art. India's richness in art and craft can be seen in every product. Due to their diversity in designs and also being utilitarian in nature, they are high in demand.

The sector has embraced innovative approaches while also laying emphasis on market-driven designs. The Indian handicraft is vast and consists of objects used for daily use made of rough local materials to objects of special value used on religious functions and special occasions. New categories of handicrafts have also emerged to meet the traditional and trade related needs of the craftsmen.

The handicrafts sector plays a vital role in the country's economy. The sector is labour intensive and eco-friendly with a huge potential for employment to a vast segment of craft persons in rural and semi urban areas. The Indian handicrafts industry is fragmented and unorganized, with more than 7 million<sup>21</sup> regional artisans and it includes a big share of women artisans, who work towards promoting regional art and craftsmanship in the domestic and global markets. The Indian handicrafts exports were around US\$ 4.5 billion during 2015 and have increased at around 16.4% since 2009.<sup>22</sup> The major markets for handicrafts include the US, UK, UAE, Germany, France, Latin American countries, Italy, Netherlands, Canada and Australia.

The raw materials used in this sector are very cheap and also easy to produce. They are mostly from the recycled household waste products such as recycled wastes, bottles, plastic cups, cans, cardboard box,

<sup>21</sup> India Brand Equity Foundation

<sup>22</sup> India Brand Equity Foundation



pins, buttons, magazines and old clothes. All these factors contribute to the sector being eco-friendly in nature. The sector faces challenges such as lack of education, low capital, and poor exposure to new technologies and absence of market intelligence.

In India, handicrafts are sold through retail outlets, exhibitions, and e-commerce platforms. Players in e-commerce include, Craftsvilla, Flipkart and Snapdeal. Craftsvilla.com, an e-commerce company provides an interface to artisans across India to directly associate with the business and sell handicrafts, antique jewellery, tribal artefacts and ethnic products.

## Technology

### Logistics and supply chain

India, the world's largest producer of milk, accounts for 18.5% of world production<sup>23</sup>, and is also the second largest producer of fruits and vegetables<sup>24</sup>. Despite high production, India finds it difficult to feed its own people. Controlling the levels of waste is far beyond the capability of individual farmers or consumers. Appropriate food storage plays a critical role in preserving the nutritional value of food. It prevents food borne illnesses caused by harmful bacteria and helps protect vital nutrients. Improper food storage results in under-nutrition affecting large sections of the poor, particularly women and children.

Direct procurement of agricultural products can be carried between a buyer and farmer, where the farmer agrees to provide established quantities of a specific agriculture product, meeting the quality standards and delivery schedule set by the buyer. This direct procurement from the farmers will help in the reduction of food wastage and also give higher returns to the farmers if there is no bargaining power from the buyers.

Approximately, 18% of the country's fruits and vegetables worth US\$ 1.98 billion<sup>25</sup> are wasted annually due to the lack of cold storage facilities. The fruits and vegetables food product is wasted more than other food products, mostly due to inadequate cold storages and inefficient handling. Poor cold storage infrastructure not only affects the freshness and quality of products, but also the price.

The supply chain management which includes the cold chain component is better organised for India's milk dairy industry, leading to lesser wastage of milk as compared to fruits and vegetables. In the supply chain, milk is collected from the farmers at technologically advanced collection centres after testing it for milk fat content. It is then transferred to chilling centres or bulk cooling units where the milk is cooled. It is then transported to processing plants for processing and to distribution centres for packaging.

India is among the largest producers of apples with most of the production coming from Jammu & Kashmir, Himachal Pradesh and Uttarakhand. Apples are transported through the country in unrefrigerated trucks over roads. A shortage of trucks leads to extended periods of unrefrigerated storage. This leads to further damage during transportation. This results in a lower quality before it reaches the end consumers. This impact can be reduced if the cold storages are located close to the production site.

The marine food products are highly perishable. They need to be quickly frozen after initial processing and kept frozen until purchased by the consumer. Improvements in the cold storage infrastructure facilities have improved the exports of these products.

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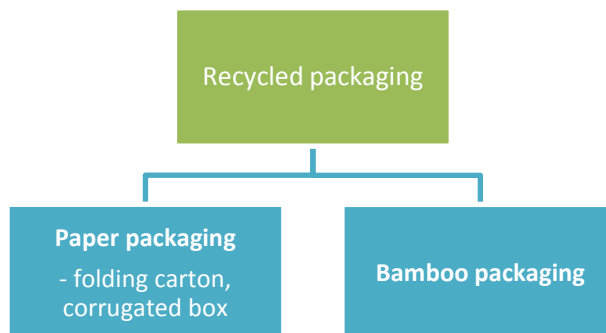
<sup>23</sup> News 18, stated as according to economic survey 2015-16

<sup>24</sup> The Times of India

<sup>25</sup> Report by Emerson climate technologies, value given in INR and conversion rate assumed at 1 US\$ = 67 INR

There are challenges faced by the cold storage industry in India. High energy costs, along with frequent power cuts, leads to higher cost of investment and operating expenses in the cold chain. The cold chain segment has huge opportunities for growth, given the market potential in the country. Hence, cold chain facilities play an important role in India considering the levels of food wasted. With the adoption of technology solutions like multi-commodity cold storages, controlled atmosphere storage, ripening chambers helps in improving the quality of produce and also helps the environment.

### Recycled packaging



Due to an increase in the environmental concerns worldwide and an increased need to reduce toxic emissions, recycled packaging is being adopted by the food and beverages, healthcare, personal care industries and pet food in India. An increase in the demand for sustainable products has helped in fuelling the growth. Increase in consumer awareness about recycling and the ill-effects of plastic waste accumulation have a positive impact on the growth of the market. Companies have developed sustainable and eco-friendly packaging materials, which can be recycled and reused.

There is a growth in the recycled paper packaging industry in India because of an increase in the production of paper and pulp. The recycled paper packaging uses paper products as raw materials, which are derived from waste paper generated by end consumers or wastage created during the production of other paper packaging products. Paper can be recycled up to 10 times to be reproduced as new products and used in different applications. Corrugated packaging is generally made without any bleaches or dyes, which further enhances its recyclability and also reduces the environmental footprint. They can be reused again before it is recycled. These materials can be disposed of more easily because they are biodegradable.

The paper packaging products play an important role in the overall packaging industry in India. The market for paper packaging materials is among the most economic and eco-friendly industry segments, which is growing due to the demand for paper-based flexible packaging materials. Paper packaging materials are used for cushioning, bracing, and blocking. The growth in the Indian paper packaging industry has been impelled by the augmenting demand for better quality of paper packaging products and changing consumer preferences. Increasing demand for paper packaging products along with high urban population growth, rising disposable incomes and paper production in India are anticipated to further stimulate the country's overall paper packaging industry in the following years.

Increasing FMCG and food & beverages sector are the contributing factors for the growth in folding carton. The corrugated box market has been increasing mainly due to development of the country's logistics sector and also the exports. A few leading players in the paper packaging industry include Kraft paper, ITC, TCPL, Parksons Packaging, Horizon Packs, TGI Packaging Pvt. Ltd, and Chandra Packaging.

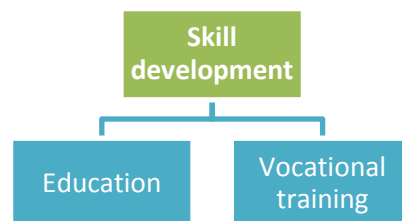
Bamboo can be used as a sustainable packaging solution. Bamboo packaging helps in reducing environmental impacts and promoting a healthier planet. This also helps in reducing the packaging related carbon footprint. Dell uses bamboo packaging to cushion their lightweight products.

## Skill Development initiatives

The skill development aims to enhance the participation of youth, seek greater inclusion of women, disabled and other disadvantaged sections into the workforce, and improve the capability of the present system, making it flexible to adapt to technological changes and demands emanating from the labour market.

Skill development is critical for economic growth and social development. To enable employment ready workforce in the future, the youth need to be equipped with necessary skills and education. The skill development issue in India is thus pertinent both at the demand and supply level. To meet the demand side challenge, consistent efforts are being made towards expansion of economic activities and creation of large employment opportunities. On the supply side, growth in the youth population provides a fair reason to believe that India has the strength to cater to this demand. Huge gaps exist between the industry requirements and the level of skills of workers due to varied reasons including inadequate training infrastructures, inappropriate mix of skills and education, outdated curricula, limited industry interfaces, limited standards, etc. There is a disconnect between the formal education system and work requirements, compounding the challenges related to the skill gap.

The skill development ecosystem in India is complex, large and diverse, providing varied levels of skills across an extremely heterogeneous population. Skill development in India can be broadly segmented into Education and Vocational Training.



Elementary, secondary and higher education is governed by the Ministry of Human Resource Development. University and Higher Education caters to all college education (Arts, Science, Commerce, etc.), while engineering education, polytechnics, etc. fall under Technical Education. University Grants Commission (UGC) is the nodal body governing funds, grants and setting standards for teaching, examination and research in Universities, and the All India Council for Technical Education (AICTE) is the regulatory body for Technical Education in India.

Skills in India are acquired through both formal and informal channels. Formal vocational training is imparted in both public and private sector. Some of the major channels of formal vocation training include the government-run Industrial Training Institutes (ITIs), privately operated Industrial Training Centres (ITCs), vocational schools, specialized institutes for technical training, and apprenticeship training by the industry. Informal training on the other hand refers to experiential skills acquired on the job.

The policies governing skill development are The Apprenticeship Act of 1961, The National Skill Policy, and The National Skills Qualification Framework. The bodies for skill development are, Ministry of Skill Development and Entrepreneurship, and The Ministry of Human Resource and Development (MHRD).

## Natural Capital Fund: Business of focus

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Organic products, NTFP, Medical and wellness products

Current growth in organic food market is driven by rising consumer health consciousness, lifestyle change and growing availability in various modern retails. More growth is expected in the near future as government support organic food business with subsidies and various training activities to the farmers. With an organized production method the farmers can optimize the utilization of resources, cultivate better quality products and overall increase in production.

India is the second largest exporter of AYUSH and herbal products. The consumption of AYUSH and herbal products is growing due to growth in domestic demand. Investments in this segment are focused on research and development and specialized treatment centres.

Development and creating demand for non-timber forest products create positive social impacts on forest dependent population. This segment has issues to optimize production process due to lack of understanding in supply and demand for the products

The Fund Promoters aim at investing in business ideas that can help consumer products to take shape into more natural and has ecological benefits. The focus of investment is towards production and retail outlets that could help doing business in a more optimized manner to create sustainable solutions.

### **Production**

Production phase in this context also involves research and development and other pre-production activities that could help to design the product according to the end consumer insights. Following are the summary of factors that the Fund Promoters aims to achieve through their investments

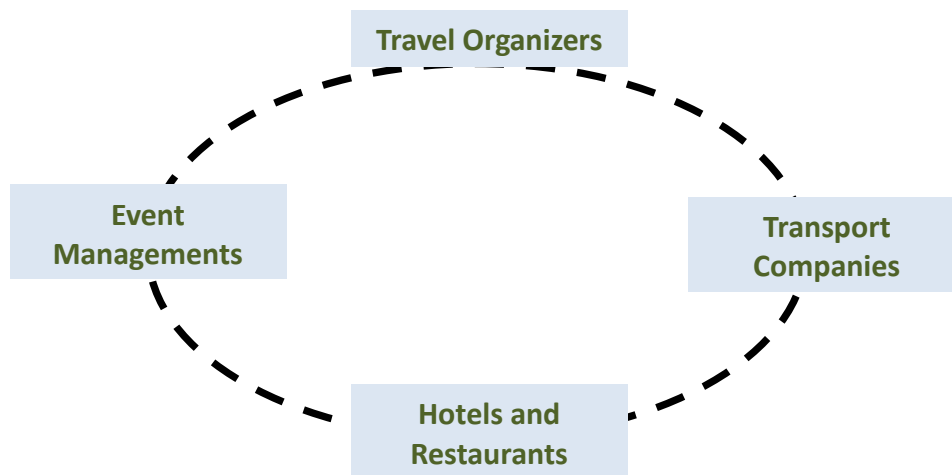
- Direct social and ecological impact:
- Improvised production techniques
- Organizing production process

### **Retail**

Retail outlets are the segment that influences the consumers to buy the product and thus creating demand. The Fund Promoters would be ready to partner with companies in this segment and mentor to create

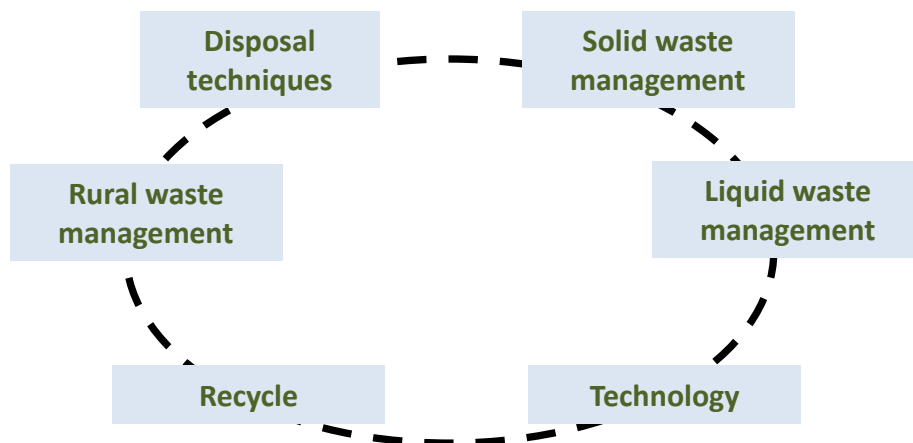
- Awareness in end consumers
- Quality and price assurance with brand
- Reach to larger community and hence create demand for this products

Eco tourism



Ecotourism is management of tourism and conservation of nature in a way so as to maintain a fine balance between the requirements of tourism and ecology on the one hand and needs of the local communities for jobs, new skills, income generating employment. The Fund Promoters have identified Travel organizers, Transport companies, event management companies, hotels and restaurants as key focus for investments.

Waste management



The waste management system includes aggregation and segregation of waste and converts useful bi-products that can be used as fuel, manure, recycled material and etc. Processing technique of liquid waste can have impact on the ecological benefit by not polluting the water bodies. Rural areas to manage waste from livestock and other biodegradable waste can used as fuel and manure for their fields, designing products specifically for rural population could benefit the quality of life and save energy for the community. The Fund Promoters would like to be part of such advancements happening in waste management technology by providing financial support and mentoring to design the initiatives into a sustainable business model.

# Risks of the Natural Capital Fund

## Natural Capital Fund - Potential risks

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### Investment risks

#### Size of fund

Conflict of interest between the Sponsors' desires to maintain its market position by raising funds of larger size, set against the investor's need to ensure that the capital raised is effectively deployed towards opportunities within the proposed investment period.

#### Mitigation

There should be alignment of interest and good relationship maintained with its investors to facilitate future fund raising

### Scheme based risks

#### Sector risks

- Difficulty in identifying suitable investment opportunities - It is difficult to identify whether the target sectors are in a position for consuming sufficient capital in the future and also whether the space is over crowded with other mainstream venture capital firms
- Difficulty in measuring impact – Track of KPIs and other impact metrics
- Market reception – Markets' reaction to move from a grant based ecosystem to a more accountable equity or debt based ecosystem
- Market maturity – Markets' readiness to understand venture capital financing; cultural impact

#### Mitigation

- Create a team of investment managers who have in-depth sector expertise and proven management skills working with impact enterprises and their promoters
- Define easy and simple evaluation metrics that will broadly capture the triple bottom line approach. These metrics need to be easily evaluated on a real time basis throughout the fund life cycle
- Define the market; move with early adopters

### Management risks

#### Investment Managers' risks

- Having a senior representative person (as required by law) with more than 5 years of experience in managing a fund house
- Attracting and retaining right talent – Finding and keeping people inside is critical for a fund, though some of the functions of the investment manager can be outsourced
- Motivating talent – Investment Manager needs to make actions in favor of the investors, and act on behalf of the investors

Conflicts of interest - There can be conflicts of interest between the sponsor and the investors if there is no transparency and discipline maintained in the business processes throughout the lifecycle of the fund.

### **Mitigation**

- Doing it right first time
- Find people who have the same thought process and motivation levels
- Appointment of an Investment Committee
- Performance linked payment structures

### **Operational risks**

- Containing costs of operating the fund – This risk arises when the sponsor does not allocate the management time and other resources among the fund.
- Other operational constraints, like indemnification (if any), creating an impact on the operations of the fund - The investment manager is responsible for all the suits, proceedings, claims, damages, losses and liabilities in case of any willful misconduct. These should not have an impact on the financial condition of the fund and also on the ability to acquire assets.
- Liabilities' arising on account of operations / portfolio companies – This risk arises when the sponsor is not in a position to meet the overhead expenses and the other expenses of the fund.

### **Mitigation**

- Exploring alternative financing opportunities like fetching out grants to fund unaccounted costs
- Clear and legitimate legal agreements and framework in place

### **General risks**

#### **Economic risks**

Macroeconomic risks - The general economic conditions such as the interest rates, exchange rates and natural disasters may affect the performance of the investment.

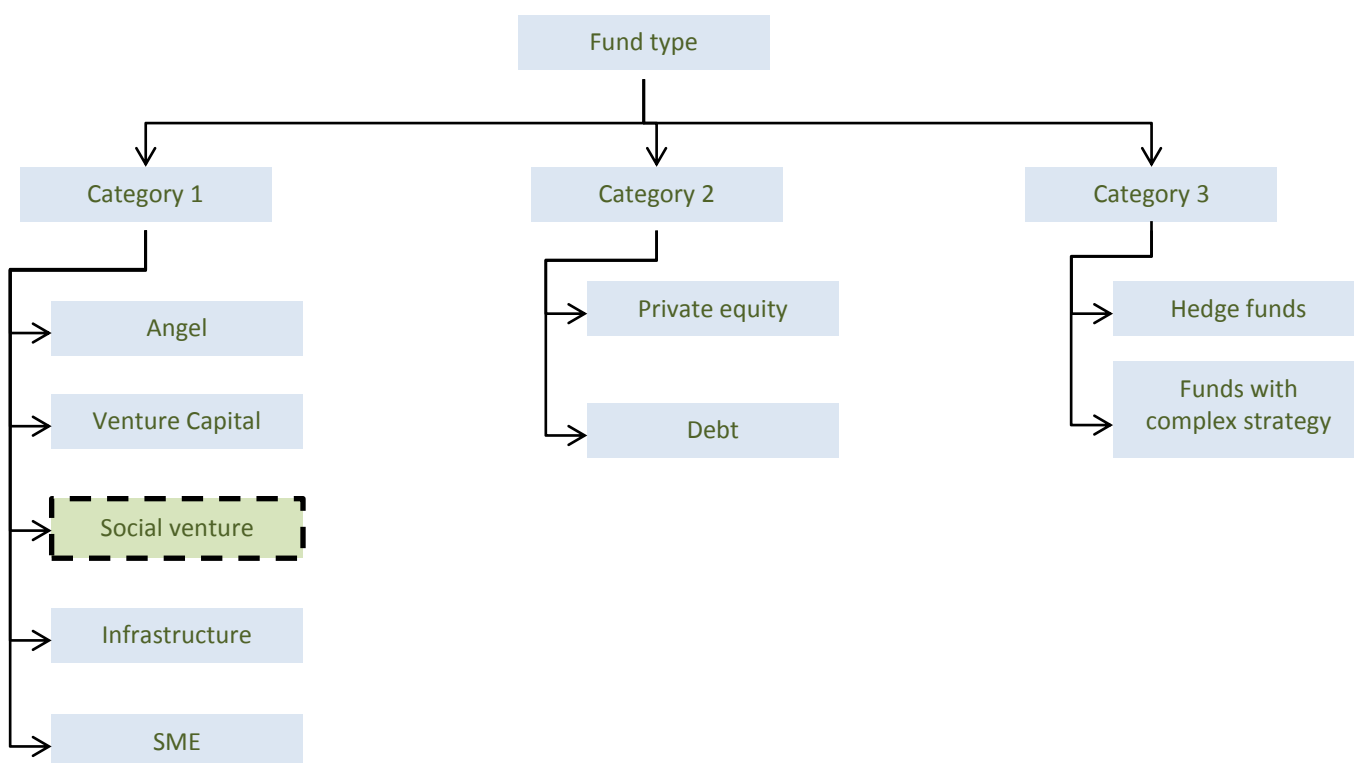
Political risks and policy related risks in India - Political risks are associated as a result with any change in the country's government or its policy and regulatory environment. These risks can have an impact when investments are pooled from outside India.



## About the Fund

## The Fund

The new fund will be registered under SEBI as a Category 1 Social venture fund that focuses on triple bottom approach to ensure Ecological, social and economic benefit through the investments. The fund must have a minimum corpus of INR20 Cr.



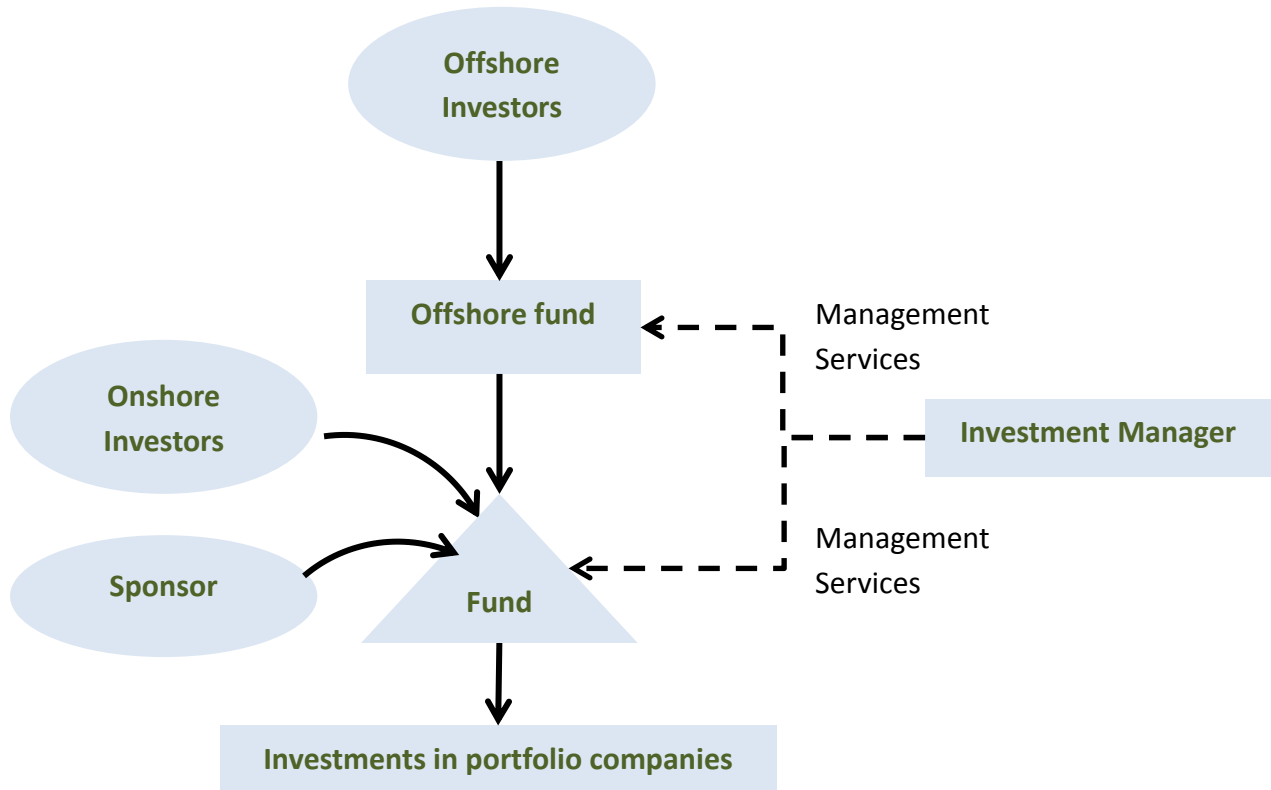
SEBI regulates a social venture fund with certain conditions in the interest of protecting the investor's capital which is mentioned in quotes as follows

1. *"At least seventy five percent of the corpuses shall be invested in unlisted securities or partnership interest of social ventures."* The unlisted securities can in the form bonds and debentures offered by portfolio social venture entities. A social venture entity can be a trust, society or company or venture capital undertaking or limited liability partnership formed with the purpose of promoting social welfare or solving social problems or providing social benefits and includes,-
  - Public charitable trusts registered with Charity Commissioner;
  - Societies registered for charitable purposes or for promotion of science, literature, or fine arts;
  - Company registered under Section 25 of the Companies Act, 1956; (Nonprofit making companies)
  - Micro finance institutions;
2. *"Such funds may accept grants, provided that such utilization of such grants shall be restricted to the above clause 1"* A grant can affect the fund corpus and during repayment the returns cannot be transferred to the entity / Individual the fund received grant from and hence equal returns to the limited partners on prorated bases cannot be achieved.
3. *"Such funds may give grants to social ventures, provided that appropriate disclosure is made in the placement memorandum."* This condition contradicts the triple bottom line approach of THE FUND since grants are money out flow from the without excepting returns from it
4. *"Such funds may accept muted returns for their investors i.e. they may accept returns on their investments which may be lower than prevailing returns for similar investments".* Muted returns mean that the fund need not adhere to / commit upfront to investors, a hurdle rate on the

investments. This also implies that the fund sponsor will not enjoy the benefit of carry in case of higher returns: there is no hurdle rate or carried interest arrangement required in the case of a social venture fund.

### Structure of the fund

The Natural Capital Fund will have investors from abroad as well as India. This calls for a different structure to the fund, so that offshore investors are treated at par with onshore investors on account of tax and other regulatory implications.



### Unified Investment Structure

This structure is generally used when there is capital from both domestic and offshore investors. The investments are pooled into a domestic pooling vehicle. In this structure, the trust is organized in India. The domestic investors directly contribute to the fund, while overseas investors will pool their investments in the offshore fund, which, in turn, invests in onshore fund. The onshore fund should be registered under the AIF regulations with SEBI. A prior approval of the FIPB is required if any foreign investment is made by the offshore fund to the onshore fund. There is a common GP/ Investment manager for an offshore and onshore fund will syndicate limited partners to achieve the fund corpus.

### Offshore pooling mechanism

Pooling offshore money



The offshore investments are pooled into a fund in Mauritius. Mauritius has a treaty arrangement with India for transaction under DTAA (Double Tax Avoidance Agreement). Similarly India has treaty arrangements with multiple other countries such as Singapore, Ireland and Netherlands, but Mauritius is a prime route for pooling offshore funds since Mauritius has no capital gain tax.

Following is an illustration of tax structure that explains the tax savings when an US investor routes investments in India through an Indian investor, or through direct investments or through Mauritius.

	USA Investor		
	India Investor	Direct investment	Via Mauritius
	20%	20%	-
Capital gain tax in USA	-	15%	15%
Capital gain tax in Mauritius	-	-	3%
<b>Total tax</b>	<b>20%</b>	<b>35%</b>	<b>18%</b>

*The Governments of India and Mauritius are, however, in the process of renegotiating the treaty. Based on publicly accessible information, it appears that the two countries are considering the inclusion of the LOB (limitations on treaty benefit) criteria within the treaty. The LOB clause is likely to stipulate an expenditure threshold for claiming the capital gains tax relief.*

### Stakeholders to the fund

#### Sponsor

The general partner or the sponsor will be the initial investor for the fund. According to SEBI guidelines the GP has to invest 2.5% of the fund corpus or 5 Cr whichever is lower. Generally GP syndicates other investors to fund by presenting the placement memorandum to prospective investors and signing them in for capital commitment. A placement memorandum is detailed document that explains about the dynamics of the fund In terms of target segments for investments and investment strategy, structure of the fund, team and execution. The general partner of the fund will also perform the functions of fund manager to manage the funds and source deals from different parts of the country.

#### Roles of sponsor

- Initial steps for forming a fund
- Sponsor’s capital commitment
- Syndicate LPs to fund – Fund marketing
- Administration of fund
- Maintain a transparent record of fund’s financials

- Source qualified deals

### Contributor

Limited partners are the investors who have accepted to the terms of the fund and invested. Each limited partner should invest 1 Cr to be eligible as a limited partner. A social venture fund can have maximum 1000 limited partners. The sponsor of the fund is also regarded as a contributor to the fund.

### Roles of a contributor

- Understanding the Placement memorandum of the fund
- Capital commitment to the fund

### Investment manager

The investment manager is an interface between prospective portfolio companies and the fund and hence administer in sourcing opportunities to invest. In this case the sponsor of the fund is taking the responsibility of investment manager. The investment manager is entitled to receive management fee from the fund for performing his activities. The Sponsor of the fund can be the Investment Manager to the fund.

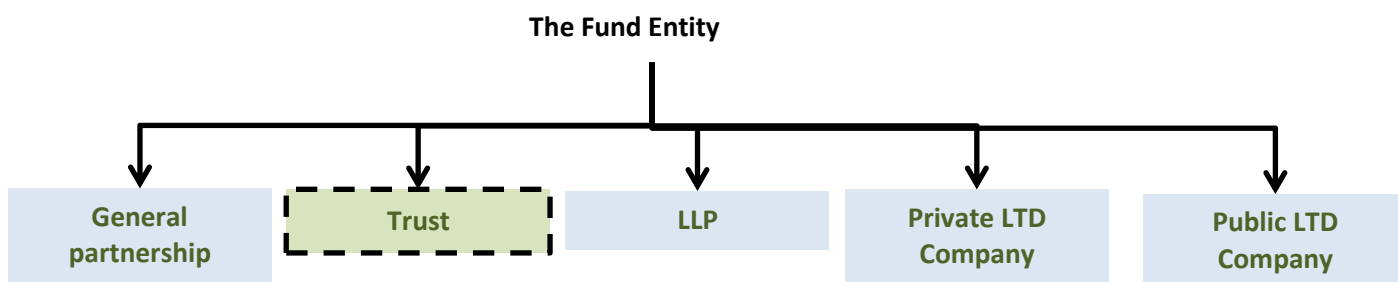
### Roles of investment manager

- Sourcing investment opportunities
- Performance monitoring
- Portfolio management
- Managing exits

### Investee companies/ portfolio companies

The investment manager shall identify investee companies based socio, ecological and economic impact the business can create to the society. Companies with convincing concept, good team to execute and market conditions will influence the selection of portfolio companies. Post investments the Investment Manager monitors key KPIs for the business and evaluate progress of the company. The fund promoters will also mentor investee companies/enterprises based on their prior experience of mentoring other start-ups in the ecological front.

### Fund



The Natural Capital Fund will be an organized contributory trust settled in India by fund promoters – the settler under Indian Trusts Act, 1882. A trust is created by a trust deed that names the settlor, the trustees and the beneficiaries. The trust deed would have to be registered with the jurisdictional Sub-Registrar.

## Why a Trust?

The trust entity is regarded as the most feasible structural entity for registering as a fund in India. The winding up of a trust is a relatively easy and hassle free process. Once all the proceeds from the fund are returned to the investors, the Trust entity can be wound up and dissolved at relative ease. Second, the Trust structure calls for a Trustee in place, who will act in the interest of the contributors / beneficiary to the Trust. This re-affirms confidence in the investors.

## Parties to the Trust

- **Settlor:** The sponsor forms the trust and registers it with SEBI as AIF Category 1 social venture fund. The fund sponsor acts as the settler of the Trust, contributing to its initial capital and appoints a trustee.
- **Contributor/ Beneficiary:** Contributor is the investor to the fund and makes a capital commitment under a contribution agreement.
- **Trustee:** Trustee is in charge of the overall administration of the trust and may be entitled to a trusteeship fee.

## Responsibilities of the Trustee

- The Trustee is under an obligation to keep clear and accurate accounts of the assets and financial condition of the trust property and allow the beneficiaries to inspect and examine such accounts
- Trustee is personally liable for the debts of the trust. To be able to meet the debts of the trust, trustees are usually entitled to be indemnified out of the trust's assets. Investors of the trust will not be liable for the actions of the trust or trustee
- Trustee has a fiduciary duty towards the investors; they are required to treat the trust property as if it were their own and deal with such trust property as a reasonable person would. The trustees are severally liable under the Trusts Act for breach of such duties

## Winding up scenarios

- When the tenure of all schemes that is mentioned in the placement of memorandum has ended

In case of a premature winding up of the trust, that is, if the Trust needs to be dissolved prior to the close of tenure of the fund, the following condition shall apply:

- If it is the option of trustee or trustee company in the interest of investors in units, provided 75% of investors by value pass a resolution in a meeting or if the board directs in the interest of investors

## Fund Administration

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### Sponsor and Investor arrangement

Sponsor acts on behalf of the investment fund. The Investment Manager is affiliated with the Sponsor and provides investment advisory services to the fund. This entity evaluates potential investment opportunities by employing investment professionals. The Investment Manager enters into 'an Investment Manager Agreement with the fund, represented by a Trustee, in case the fund is a trust, to act as the investment adviser or manager of the fund. Under this arrangement, the fund pays management fees to the Investment Manager in exchange for the investment adviser's agreement to employ the investment professionals, evaluate potential investment opportunities and undertake the day-to-day activities

associated with a variety of investment advisory services and activities for the fund. The fund and the contributors are bound by the Private Placement Memorandum (PPM) and the Contribution Agreement.

### **Private Placement Memorandum -PPM**

The PPM is detailed document that explains the dynamics of the fund, which is used as marketing collateral for the prospectus contributors. In general a PPM covers certain aspects of fund such as

- Fund corpus, rate of return and tenure of the fund
- Background of the management team
- Investment philosophy
- Target sectors
- Structure of the fund
- Terms and conditions of the fund

### **Contribution Agreement**

The contribution agreement is an agreement signed between trustee, Investment manager and contributor, in general the agreement explains the terms of investment such as

- Contribution and subscription
- Procedure for contribution and subscription
- Other terms and conditions of the contribution

### **Investment Management Agreement**

The investment management agreement is the agreement between investment manager and the trustee of a fund. This agreement is signed when investment manager is appointed for the fund. The agreement explains terms of investment manager such as

- Role and responsibilities
- Fee structure
- Other terms and conditions

### **Fund bank account**

The funds bank account is an escrow account which is under the supervision of the trustee. Any transfer of funds has to be verified by the trustee and hence authorizes the bank for transaction. Following are the major transactions of the bank

- Capital drawdown
- Fund expenses
- Return on investment
- Distribution of funds

### **Managing the offshore fund**

The offshore fund is maintained at Mauritius where India has a tax treaty arrangement for DTAA (Double taxation avoidance agreement). Although India has tax treaty arrangement with other countries such as

Singapore, Ireland and Netherlands, <sup>26</sup>40% of foreign inflow of funds is directed through Mauritius since no capital gain tax is charged for the returns at Mauritius.

The offshore investors pool their money into the offshore fund and that fund will invest into the onshore fund. This offshore fund has its own investment manager (In this case maintained by Indian fund manager).

During distribution of returns the settlor calculate divide the returns on prorata basis, for an one shore investors the capital gain tax reduced and distributed and for offshore investor the tax is not deducted India. The returns are then transferred to offshore investors through Mauritius fund

#### Capital Call

The fund can initiate capital drawdowns from contributors only till restricted period (usually 12 to 18 months), after which the fund may not accept additional investor commitments. During the capital raising period, the GP seeks investors to subscribe for capital commitments to the fund. An investor generally becomes a participant in a fund by subscribing for a capital commitment. In most cases, the commitment is not funded at subscription or even all at once, but in separate instalments, on an as-needed basis to make investments during the investment period. **A commitment by the Sponsor and its key executives is essential because it aligns the interests of the Sponsor with those of the investors.** This is required under SEBI AIF (Alternative Investment Funds) Regulations in India. Investors commit to invest an agreed amount in the fund.

#### Defaulting Contributor

If a contributor fails to contribute for capital call within (XX) business days mentioned in the drawdown notice is declared as a defaulting contributor. The trustee can take following actions on the contributor to the extent permissible by law and subject to terms and condition.

- From the day of drawdown notice a predetermined interest rate according to the terms is calculated and the contributor is liable to pay that additional money
- Plus (x%) on capital commitment mentioned in the drawdown notice (Should not exceed the highest rate permitted by law) from the day of drawdown notice to the day capital remittance
- If the defaulter continues to default beyond (YY) days
  - The fund may take legal or other action mentioned in the contribution agreement
  - The fund shall suspend the right to receive distribution. However the defaulting contributor remains fully liable to fund 1
  - The fund shall suspend/terminate the defaulting contributor's right to make future payment towards its capital commitment
  - The fund shall offset amounts otherwise distributable to such Defaulting Contributor against the Default Amount
  - The fund shall prohibit the Defaulting Contributor from participating in any subsequent Contributor vote, meeting, consent or decision to be made by the Trustee
  - The fund shall forfeit all sum paid by the defaulting contributor. The defaulting contributor shall not have any rights (including refund of capital contribution) in respect of its contribution made to the fund

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<sup>26</sup> Nishith Desai-fund structuring and operations



- To undertake any enforcement action on behalf of the Trust
- The defaulted contributor cannot access any material about fund

#### Distribution of Funds

The proceeds arising from out of realization of investments from portfolio companies in the form of interest, cash dividends or funds from liquefying the companies are distributed to the contributor on a prorata basis. The settlor will have to deduct necessary funds to maintain appropriate reserves for maintaining various expenses and liabilities of Fund, as well as for any required tax withholdings.

#### Fund Expenses

The Investment Manager receives a management fee for managing the fund. The management fee is usually 2% per annum on the aggregate amount of committed capital. However, the fees range between 1.5% to 2.5%, depending on the aggregate size of the fund and other factors.

There are many expenses associated with a fund,

- Establishing and organizing the fund and its infrastructure
- The operation of the fund

#### **Organizational Expenses**

The operating agreement of a fund requires the investors, to cover the costs of establishing the fund. The organizational expenses of the fund generally include the out-of-pocket expenses incurred in forming the fund and any related vehicles, such as printing, travel, legal, accounting, filing and other organizational expenses. Organizational expenses are borne by the fund's investors out of their capital commitments. This is included in the fund's operating agreement depending primarily on the size and complexity of the fund. The GP will be responsible for any organizational expenses in excess of the cap.

#### **Operating Expenses**

The fund bears all other costs and expenses relating to the operation of the fund. These include fees, costs and expenses relating to:

- Management fees
- Third-party service providers to the fund (such as the expenses of any administrators, custodians, counsel, accountants and auditors)
- Printing and distributing reports to the investors
- Taxes and any other governmental fees or charges levied against the fund

The operating expenses of the fund are borne by the fund's investors out of their capital commitments. However, unlike organizational expenses, operating expenses are typically not capped.

#### ***Manager's Expenses***

The fund's manager is expected to bear the cost of its own ordinary administrative and overhead expenses incurred in managing the fund. These costs are related to the operation of the fund and its investments, such as employee compensation and benefits, rent and general overhead.

## Fund Tenure and Closure

The fund is a XX year tenure fund, By the end of XX years all the assets of the fund has to be liquidated and distribute to investors on a prorata basis. The general partner/Trustee/Investment manager make full efforts to liquidate the investments before the tenure, In case of all the investments is not liquidated the investment manager can request for Extension from the contributors, If two third of investor by value approve it the fund can be extended up to 2 years. In case of absence of consent from the contributors the fund has to be liquidated within 1 year.

If the investment manager is still not able to liquidate the assets, the un-liquidated investments are distributed to the contributor based on proportion to capital contribution. The fund then has to wind up by surrendering the certificate of registration to the board.

## Process flow of fund life cycle

The sponsor takes the initial steps and incurs all cost for registering the fund. The sponsor drafts an agreement and applies to SEBI to get a principle approval to market the fund to the prospectus contributor. The sponsor starts marketing using a PPM-Private Placement memorandum (which explains all the aspect of that fund) after agreeing to the terms, the contributor signs the contribution agreement and hence accepting for capital commitment in the fund. The fund is then registered under SEBI as a social venture fund, an offshore fund is also registered for offshore investors to pool the funds and invest into the Indian fund.

The sponsor then forms a trust which constitutes a settlor, contributor and trustee. The role of trustee is to manage the fund in the trust. The fund is now ready to begin its activities. The investment manager (in this the sponsor itself) is responsible for sourcing investment opportunities, which is then evaluated and filtered based on the funds standards and focus. The board then request the trustee send a drawdown notice to the contributors. The trustee then verifies the drawdown amount and then intimate contributors for capital drawdown for onshore and offshore investor. The contributors are then liable to pay the drawdown amount before the drawdown period. Onshore investor transfer the fund directly to the onshore fund whereas the offshore investors pool funds to offshore fund (In this case Mauritius) and the offshore fund will transfer the fund to the onshore fund. The trustee then approves capital inflow from contributors and directs the fund to an escrow account which is controlled on trustee's approvals.

The funds then flows out escrow account on trustee's approval, to invest into portfolio companies and to investment manager as management fee .The investment manager closely monitor the portfolio companies and track the performance based certain KPIs that changes on case to case basis.

It is the responsibility of the investment manager to find exit for the fund from the portfolio companies to liquefy their investments and hence look for exit options. After successful exit the funds are directed back to the funds escrow account from approval of the trustee. The settlor then calculates the distribution amount to the contributors after deducting various tax and expenses. The funds are then distributed to the contributors on a prorata basis. Once all the investments in the fund are liquefied the fund is then dissolved.



# Investment Manager

## Execution – on the ground

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The Investment Manager will be responsible for the day to day management of the Fund, including soliciting, originating, negotiating, acquiring, managing, monitoring and selling of Portfolio Investments offered, in accordance with the broad strategy of the fund. The Investment Manager shall have the powers and authority to make recommendations to the Investment Committee on investments in Portfolio Companies, to carry out divestment and distribution of the Portfolio Investments.

### Proposed management team and structure

A typical fund manager's office will have two levels of management steering. There is an investment management team at the ground level to source for deals, manage portfolios, and find exits, while there is an advisory board, called an Investment Committee, to spear head the operations and activities of the Investment Management team

### **Investment Committee (3)**

The Investment Committee shortlists the deals that are presented by the investment manager and decide whether or not to invest and advises the Investment Management on the investment strategy and matters related to the LP's. The Investment Committee may consist of subject matter experts, consultants, and independent advisors who may not have any direct relationship with the fund.

### **Investment Management Team (4)**

Deal sourcing, assessment of deals and management of portfolio companies; monitor the duties performed by the investment team

- Investment Analyst (2)
  - Financial modeling, treasury management, financial analysis
- Admin. Executive (1)
  - Manages the overall administration, general maintenance
- Financial Controller (1)
  - Compliance, taxation, fund operations

### Identifying opportunities

Various opportunities can be explored by the promoters through various means,

- Use of existing network
  - Existing investee companies and their network
  - Capitalize on existing background
  - Use of internal resources to bring quality leads
- Inside lead generation
  - Subscription to data platforms (SVX)
  - Subscription to newsletters, and other media publications
  - Secondary research
- Outside lead generations
  - Engage with investment committees and forums
  - Conferences and seminars
  - Community based engagement in hinterlands

- Use of industry networks
- Business incubators, NGO's
- Explore co-investment opportunities with peers
  - Strike strategic tie-ups with other impact funds active in the market

#### Evaluation of opportunities – a process description

- An initial screening is done based on the basic information, publicly sourced information and the materials provided in order to ensure that it matches the parameters mentioned in the investment thesis and investment strategy
- Mapping / Benchmarking based on specific KPI or other parameters is done
- These results are then presented internally to the Investment Committee
- Then, the due diligence on the prospective investee candidate is initiated
  - Due diligence involves the investigation on the prospective investee candidate's business including the tax, legal, regulatory, market prospects, product, technology, business plan viability, the people / promoters of the investee companies. The accounting due diligence will be done by a CA or an accounting firm. It also involves meeting with senior management, promoters, independent directors, rating agency and investors.
- The investment case is presented to the Investment Committee and they will decide whether to invest or not
- The term sheet is signed. The term sheet outlines the key terms of the investment and it includes,
  - Proposed investment amount and valuation criteria
  - Instruments through which the investor would invest
  - Governance rights of the investor
  - Lock-in periods
  - Exit rights of the investor
- Investment negotiations are made based on,
  - Valuation
    - Equity value of investee enterprise
  - Instrument
    - Decision on instrument for infusion of capital (this will be based on the arrived value of the company, the risk profile of the opportunity, and the negotiation power of the management of the fund and company)
  - Terms of investment
    - Board representation
    - Conditions precedent
    - Promoters' commitment
    - Exit options
- Then, the infusion of funds takes place.

#### Portfolio Management

##### **Board representation in investee companies**

- The investor representatives of the Board.
- The frequency of meetings with the Investors Director and the Investors
- The basis on which the MIS is shared between the Investors and the Company

## Fund management internal process

- General portfolio management techniques
  - Dashboard to track multiple investments at the same time
    - Communication management
    - Data transfer / API arrangement with investee company ERP / MIS
- Communicate portfolio status to Limited Partners on a periodic basis
  - KPIs and financial metrics of the fund and individual portfolio companies
- Internal management
  - Ensure distributed risk to avoid any skewing to any particular geography, market, or sector

## Investor (LP) relations

The Alternative Investment Funds should ensure transparency and disclosure of information to investors on the following:

- Financial, risk management, operational, portfolio, and transactional information regarding fund investments should be disclosed periodically to the investors
- All fees (i.e., transaction, financing, monitoring, management, redemption, etc.) generated by the GP should be periodically and individually disclosed and classified in each audited financial report.
  - Any fees charged to the Alternative Investment Fund or any investee company by an associate of the Manager or Sponsor should be disclosed periodically to the investors
  - Any inquiries / legal actions by legal or regulatory bodies in any jurisdiction, as and when occurred
  - Any material liability arising during the Alternative Investment Fund's tenure shall be disclosed, as and when occurred
  - Any breach of a provision of the placement memorandum of agreement made with the investor or any other fund documents, if any, as and when occurred
  - Change in control of the Sponsor or Manager or Investee Company
  - The Alternative Investment Fund should provide at least on an annual basis, within 180 days from the year end, reports to investors including the following information
    - Financial information of investee companies
    - Material risks and how they are managed which may include:
      - Concentration risk at fund level
      - Foreign exchange risk at fund level
      - Leverage risk at fund and investee company levels
      - Realization risk (i.e. change in exit environment) at fund and investee company levels
      - Strategy risk (i.e. change in or divergence from business strategy) at investee company level
      - Reputation risk at investee company level
      - Extra-financial risks, including environmental, social and corporate governance risks, at fund and investee company level
- The Alternative Investment Fund shall provide to its investors, a description of its valuation procedure and of the methodology for valuing assets.
- Alternative Investment Funds should undertake valuation of their investments, at least once in every six months, by an independent valuer appointed by the Alternative Investment Fund.
- The GPs should inform the LPs of the departure of a key person involved with the fund's operations such as the sponsor or manager. In certain cases, the GPs ability to acquire new assets may be frozen for a specified period of time. The fund may also be prevented from making new investments until a sufficient number of new key persons are appointed to the satisfaction of the investors.

- The LPs should be notified of any change in the independent external auditor of the fund.
- The auditors should review the capital accounts with specific attention to management fee, other partnership expenses, and carried interest calculations to provide independent verification of distributions to the GP and LP.
- When the GP, its associates or its executives co-invest or make parallel investments alongside the Fund, there is a conflict of interest for the GP. The details of co-investment arrangements should be disclosed and documented to the Fund’s LPs.
- The investors should also be updated when an exit is decided

## Investment Strategy

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### Stage of investments

The new social fund will focus on seed and early stage funding and help new companies to emerge into the market. The Companies are evaluated and filtered based on triple bottom approach. As promoters, the Fund Investment Management shall mentor companies to officially launch the business, scale up activities by acquiring customers, and build efficiencies in the process.

### Merits funding an early stage company

- Encourage new businesses into the market
- Influence the management to guide the company in right direction

### Concerns to fund early stage company

The early stage companies are exposed to multiple risk factors that could affect the success of the company. The following are some of the key risks in investing into early stage companies:

- Concept risk: An early stage companies will always emerge with ideas that create new market or can disrupt the existing market. A concept is evaluated based on the value addition business idea can create to the stakeholders
- Execution risk: The execution capabilities for launching the product in the market to scaling up the business need strong team with experience in similar industry and proper structured plan for executing milestones in the business. Market risk: It is critical that the key stakeholders should accept and adapt to the business model. The market risk of a business can be evaluated by understanding
  - Is the market matured enough
  - Is the business creating a real value addition
  - Is it a sustainable solution
- Legal and regulatory risks

### Types of instruments for investments

	Equity Based			Debt Based		Grant
	Straight Equity	CCPS	CCD	Secured Debentures	Non Secured Debentures	
<b>Economic Impact</b>	✓	✓	✓	✓	✓	✗
<b>Sociological Impact</b>	✓	✓	✓	✓	✓	✓
<b>Ecological Impact</b>	✓	✓	✓	✓	✓	✓



A social venture fund can extend grant to portfolio companies. However, extending grants does not satisfy the triple bottom line investment thesis of this new fund initiative. In general, investments into start-up or growth stage enterprises are routed through convertible instruments. The conversion factor is linked in such a way that the promoter is motivated to perform for the benefit of the company. The instruments, however, vary on a case to case basis. A study of different investment instruments are detailed in the section below.

## Equity Based

### *Straight Equity*

A straight equity is the investor buying the stake in the company for the investments made, the price of the stake is decided by the valuation of the company. Generally straight equity investments is done by private equity investments for large companies that will help them to take strategic decisions like vertical integration, merge or acquire a company, penetrate into global market etc.

It is difficult to do straight equity investments in early stage companies since founders and the fund houses are not clear on the valuation of the company. Straight equity investments by individuals is done to become a strategic partner in the company and hence become a board member

### *Compulsory convertible preference shares - CCPS*

Most early stage venture capital investments are made through convertible instruments. This ensures responsibility and accountability for the investees and motivates the investees to perform better. On the other hand, risk is shares between the fund and the investees. Under typical scenarios, an early stage investor will make investments in the form of convertible instruments where there is a subsequent round of investment/fund infusion anticipated in future. Hence, while making investments, the conversion ratios are pre-defined at the time of investments. The conversion ratios are derived on the basis of:

- Company's performance
- How early and big is the Subsequent funding

#### Merits of Convertible instrument

- Risk factor can be minimized using an convertible instrument
- Investments can be partially protected by hedging the stake in the company
- Motivation to the promoters

#### Limitations

- Complicated terms and condition for the promoter to understand
- Opportunity loss compared to straight equity in stake when the business does well

#### Illustration

Following is an illustration of convertible instrument. A predefined agreement between the company and the Investment Manager shall set out the terms of conversion. The terms of conversion include, the time of conversion, conversion rate, and the context of conversion.

*Performance based*

1. The Investment Manager short listed company A and agreed to infuse funds in return for preference shares in the company
2. Based on the agreed terms the new fund will invest INR 1 Cr into the company
3. The company A issues 25000 compulsory convertible preference shares which get converted to equity shares at year 3
4. The IM monitors the key KPIs of the company (in this case *sales* is the only KPI) to assess the company's performance
5. End of year 3 the preference shares are converted to equity shares at following are conversion rates based on sales

Conversion terms at the end of year 3	Year 1	Year 2	Year 3	Year 4	Year 5
Sales Slabs @ 2018 in INR Cr	1-1.25	1.25-1.50	1.50-1.75	1.75-2	>2
Conversion rate	1.75	1.5	1.25	1	0.75

- The company A recorded sales INR 1.1 Cr at year 3 and hence the preference shares are converted at the rate of 1.75 times of preference shares.
- Hence the new fund holds 1.75 times the preference shares which is  $25000 \times 1.75 = 43,750$  equity shares which is 44% stake in the company

*Subsequent fund raise*

- The IM short listed company B and a term sheet is signed for fund infusion
- Based on the agreed terms, the new fund will invest INR 1 Cr (investment 1) into the company B for preference shares that gets converted as equity shares on year 3
- The multiple for equity stake conversion is calculated based on discount rate on the value of the company at year 3, company A should not exceed 3 years for next round of funding to avoid further dilution in the form of penalty as per the clause signed during investment 1
- Following is the discount rates for various investments in the next round

Next round funding amount	1-2 Cr	2-4 Cr	5-7 Cr	8-10 Cr	> 10 Cr
Discount rate	45%	40%	35%	30%	25%

- This will keep the promoters motivated to perform and increase the value of the company and shape the company to interest the investors for next round of funding
- In next round of funding the Investor 2 agrees on the certain valuation (INR 11 Cr) for the company and infuse next round of funds which is INR 4 Cr
- The company A issues equity shares to the new fund at 40% discount rate of valuation price. In case the company fails to raise funds within year 3 discount rate increases and hence increase the dilution for the promoter
- At INR 11 Cr valuation INR 4 Cr investment will acquire 36% stake and hence cost INR 1100 per share. The investor gets 40% discount on INR 1100 per share and hence gets it for INR 660 per share for INR 1Cr investment.

## Debt Based

### **Compulsory convertible debentures (CCD)**

Compulsory convertible debentures are similar to CCPS where both instruments gets converted to equity shares after pre-determined time period that is mentioned in the agreement during investments. CCD is a debenture issued by the company that has a closing period after which the debenture gets converted to equity shares and owner of the debenture gets interest based returns

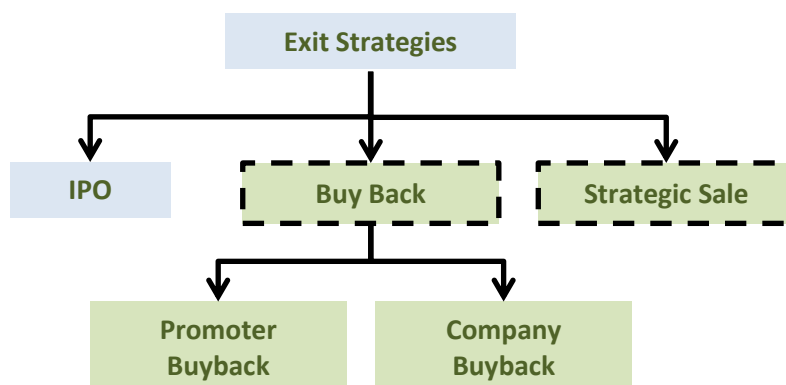
### Secured Debentures

A secured debenture is an asset backed up debt; the debenture holder may look into these assets in case of default and hence the risk involved in this investment is less

### Un-Secured Debentures

A debenture is unsecured when the debt is not backed up by assets. In case of default by the company, the only way open for them is to go to court. In case of liquidation of company, they will rank with other general creditors of the company.

### Exit strategies



Generally in seed and venture capital funds exits through buyback or a strategic sale of shares. The decision on exit method is made on case to case basis. If the company is able to exit from prior the tenure of the fund the investors have option to reinvest back into the fund for a different venture.

### Buy Back

- Buy back can be provided to an Investor either by
  - The Company, or
  - Promoter directly or through any other individual or group company, whether resident or non-resident.
- Buy-back by the promoter(s) is often also referred to as *“Put Option”*.

### Strategic Sale

- A strategic sale involves the sale of a portfolio company to a third party such as an industry peer or competitor and thereby providing an exit to an Investor.

- They tend to be full exits resulting in the sale of the entire portfolio company.
- The buyer of a company in a strategic sale is typically a strategic acquirer, which means that the buyer in the same or a related industry buys the portfolio company in order to integrate the target's products or technologies with its own.
- Strategic buyers are often believed to be able to pay a premium for companies due to strategic fit of the business of the company to be acquired with that of its own business.

#### Revenue and expenses to the Investment Manager

The investment manager shall receive fixed revenue from the fund, typically shall not exceed x% of the fund corpus per annum, for carrying out all necessary functions as describe above and detailed in the Investment Management Agreement. In order to incentivize the investment manager to perform in line with the objectives of the fund promoters and the investors, suitable incentive structures need to be linked into the agreement. At the time of writing this report, there was no conclusive opinion of how these structures need to be worked out. With a triple bottom line approach, it would be difficult to create a straight monetary incentive to the investment manager. The investment manager shall be required to carry out all it would take to meet the objectives of the Fund with this revenue.

The Investment Manager shall be responsible for all normal operating expenses of managing the Fund including (i) compensation for its employees, (ii) rent and utilities at its premises, (iii) statutory, legal, audit and other third party fees and operating expenses of the Investment Manager, (iv) compensation to any advisors or consultants retained by the Investment Manager (other than on behalf of the Fund), (v) all normal expenses incurred in the identification and appraisal of investment opportunities and monitoring of Portfolio Companies and (vi) other day-to-day expenses of the Investment Manager including, but not limited to, travel, utilities and communications.

