

Attachment 12 to business development toolkit: Funding Options in India for AT in Water and Sanitation

There are a range of funding options for an AT entrepreneur working in India, ranging from equity funds, pure business loans to venture capital to grants of various types. Some of these can be accessed directly by the AT entrepreneur, others can be accessed through NGOs or research institutions as partnerships. For convenience, the funding options for the AT entrepreneur have been divided into the following six groups, and examples given for each of these:

- I. Grants to entrepreneurs to develop innovations
- II. Grants to develop innovations with partner organizations
- III. Grants to pilot innovations through NGOs
- IV. Equity funds
- V. Debt and Business loans
- VI. Venture capital funds

I. DIRECT GRANTS TO ENTREPRENEURS TO DEVELOP INNOVATIONS

1. **Ashoka Fund for Social Entrepreneurs – provides ‘living support’ for AT entrepreneurs and a peer network for R&D and ideas, but not for start-up!**

The Ashoka Fund looks for leading social entrepreneurs and to provide these entrepreneurs—Ashoka Fellows—a living stipend for an average of three years, allowing them to focus full-time on building their institutions and spreading their ideas. Fellows are also provided with a global support network of their peers and partnerships with professional consultants. Once elected to the Ashoka Fellowship, Fellows benefit from this community for life. Ashoka finds and support the world’s leading social entrepreneurs, i.e., entrepreneurs who drive the sector forward, responding to new challenges and changing needs. There are different types of Ashoka Fellows:

- **Senior Fellows:** advanced Fellows who have already created widespread impact
- **Global Fellows:** social entrepreneurs with global or transnational ideas
- **Social Investment Entrepreneur Fellows:** Fellows that have demonstrated innovative ideas that can transform the allocation of capital for social benefit, by helping to bring fresh capital to underserved communities, improving the provision and efficiency of financial services, or developing new institutions and mechanisms to bring scarce resources to the sector.
- **Invention and Technology Fellows:** Technology entrepreneurs with a technology, a socially useful product, or a strong element of invention at the core of their work that can entrepreneurs address some social needs, particularly to groups that are overlooked by traditional commercial approaches.

Source - <http://www.ashoka.org/support>

II. GRANTS TO DEVELOP INNOVATIONS WITH PARTNER ORGANISATIONS

An AT entrepreneur with an innovative technology can seek research funds from these organisations to develop and pilot the technologies through partner NGOs and institutions. Grants normally cover all pilot-level activities, including capacity building.

1. Ministry of Water Resources, Government of India

The Ministry of Water Resources (MOWR) has a scheme called 'Research & Development for Water Resources Management', which provides grants to promote research work in the field of Water Resources Engineering. The assistance is provided by way of grants to academicians and experts in Universities and Indian Institutes of Technology, recognised Research and Development laboratories, Water Resources and Irrigation departments of the Central and State Governments and NGOs. Research proposals of applied nature as well as basic research are considered for MOWR support. Entrepreneurs have a good opportunity to apply for these funds in partnership with NGOs and Research Institutions. This is open only to Indian nationals.

Objectives of this programme: To find practical solutions to the country's water resources related problems, to improve available technology and engineering methods and procedures, and to maintain a lead in the latest technology so as to enable export of expertise from India, in competition with other developed nations. It also seeks to encourage indigenous industry to take up technology development in various areas.

Application procedures: Application for research grants can be submitted at any time of the year. The proposal is to be submitted on a prescribed proforma (available at www.wrmin.nic.in/rdguide1.html).

Source: http://dst.gov.in/r&d_funding/rdfs3.htm#mowr

2. UNDP - GEF Small Grants Programme India

India is one among the eighty-three countries globally, which operates the Small Grants Programme (SGP) of the Global Environmental Facility (GEF), administered by the United Nations Development Program (UNDP). SGP India became operational in September 1997. After the Pilot Phase and Operational Phase I and II, now the SGP is in its third operational phase (2005-2008). Overall responsibility of SGP in India rests with the National Steering Committee (NSC), which comprises representatives from the Government of India, UNDP, NGOs and academicians. The programme is being implemented (since September 2000) by the National Host Institution – Centre for Environment Education (CEE), and is open only to Indian nationals.

The SGP awards Planning Grants, which are small grants to enable the partner to develop a proposal into a possible project. They are extended up to a maximum of Rs. 90,000 (Euro 1600 or USD \$ 2000) that serve as precursors to full SGP projects, and are for a maximum of 1 year. A maximum total of 10 planning grants are approved in a year.

Planning Grants may be given when:

- an organization and the communities it works with need to be exposed to experiences outside its own location.
- external resource persons (professionals and experts from communities) need to be invited to the proposed project location to discuss and share their own experiences or even project persons who feel the need to visit and learn better about the projects.
- an organization needs to do participatory rural appraisals, baseline studies or surveys in a location they have not already worked in or in an existing project area where a new project is to be taken up.
- a new technique or technology is desired to be pilot tested, before it is adopted or needs to be replicated over a greater area etc.

- special training / orientation programmes are required to help build capacities in communities and organizations to enable them to take on a full SGP project.

It is expected that full SGP projects would result from the Planning Grants in most cases, unless the results are such that a project is not desirable.

Who can get Planning Grants? Small NGO's and Community Based Organisations (CBOs) that have credibility locally and fulfil the basic criteria's of the SGP (see <http://www.sgpindia.org/appl.asp>) but do not have resources to travel to different sites, to pay for consultants or their own costs, to be part of networks etc., or are venturing into a totally new area of work.

<http://www.sgpindia.org/>

III. GRANTS TO PILOT INNOVATIONS THROUGH NGOS

An AT entrepreneur can approach these organisations with an innovative technology and seek their support to pilot it through the organisation's network of partner NGOs. Grants cover all pilot-level activities, including capacity building, and all nationals can apply for such grant funds.

1. ICCO

The Inter-church Organisation for Development Co-operation (ICCO) is a Dutch inter-church organisation for development co-operation with her own view on working towards structural poverty alleviation. In co-operation with partner-organisations all over the world ICCO supports the under-privileged in their fight for a more dignified existence. ICCO is one of the six Dutch co-financing organisations, which, with funds from the Dutch government and the European Union organisations, supports projects and programmes in developing countries. ICCO grants are open to all nationals.

Source: <http://www.icco.nl/delivery/icco/en/doc.phtml?p=About+ICCO>

2. WaterAid India

Since 1986, when WaterAid began working in India, it has developed practical techniques to help ensure the country's poor gain access to safe, sustainable and affordable water, sanitation and hygiene education through project work, research and advocacy. WaterAid designs and implements innovative development projects in water supply and sanitation, through a number of partner NGOs all over India.

Source: http://www.wateraid.org/international/what_we_do/where_we_work/india/

3. Water Partners International

WaterPartners' program in India provides safe drinking water and adequate sanitation facilities to the families living in rural and urban Indian communities in five states – Andhra Pradesh, Karnataka, Madhya Pradesh, Orissa, Tamil Nadu and in Delhi. Water Partners works through a participatory approach together with the communities. Community involvement ensures the use of appropriate technology and fosters sustainability. And integrating all projects with health and hygiene education ensures that the benefits of safe

water continue for many years to come. WaterPartners projects are funded through grants, loans, or a combination of grants and loans.

Source: <http://water.org/waterpartners.aspx?pgID=876>

4. Byrraju Foundation

The Foundation seeks to build progressive self-reliant rural communities by providing services in the areas of healthcare, environment, sanitation, education etc. If the proposal by the AT entrepreneur is acceptable to the Foundation, it could make grants available to pilot the innovative idea through its partner NGOs and community-based organisations (CBOs).

Source: www.byrrajufoundation.org

5. Sir Dorabji Tata Trust

This Trust awards grants to NGOs in five major sectors of social development: management of natural resources, livelihood, education, health and social development initiatives. It also gives small grants to organisations for starting new activities.

Source: www.tata.com

6. Sir Ratan Tata Trust

The Sir Ratan Tata Trust (SRTT) supports efforts by local organisations through institutional grants in areas of rural livelihoods and communities, education, enhancing civil society and governance, health and arts and culture. Education, health and support for allied trusts were the mainstay of institutional grant making, with a few grants also being made for the promotion of arts and heritage, women's development, rural development, etc. Compared to the other grants made currently, these are at best modest in comparison.

Source: www.srtt.org, <http://www.srtt.org/prog-health.html>,
<http://www.srtt.org/endowments.html>

7. The Interface

The Interface is a part of the Sarada Foundations, which is a registered public charitable trust and was started in February 1997 in Madurai. It comprises a set of dedicated social investment managers who identify meaningful social causes that require support and channel funds of investors to these causes. While they provide several services to the investor, including helping them build a portfolio and tracking their investment from end to end, they provide funds to NGOs to work on social causes. In less than a year's time, Interface has developed partnerships with 34 delivery partners who include NGOs and Trusts, and has generated over Rs. 650,000 (11,700 Euros). Partners are chosen carefully and their credentials verified. AT entrepreneurs can apply with a local NGO to the Interface to be considered for funding.

Source: <http://www.theinterface.in/sector.php>

IV. EQUITY FUNDS

1. IFMR Network Enterprises Fund

IFMR Trust Advisory Services (ITAS) is an Asset Management Company that is launching its first equity fund, IFMR Trust's Network Enterprises Fund™ (NEF). The NEF intends to make investments in some key missing links in rural supply chains. The NEF will invest in supply

chain companies in 10-15 sectors. Called Network Enterprises (NEs), they in turn will invest in key supply chain gaps, including logistics, technology and certification and working capital. An example of a supply chain gap is a company with an innovative and economical water filter which requires certification by the Indian Standards Institute (ISI) before it can be mass marketed. A Network Enterprise will provide the service of helping entrepreneurs get access to certification and providing information and guidance through the certification process.

The Asset Management Company (AMC) of the NEF brings with it several key strengths, including the following:

- An investment team with more than 50 years of collective experience in rural financial services, venture capital and supply chain management, with several members having worked together in the same organisation
- A deep understanding of mainstream markets and project finance techniques
- Direct experience since June 2007 of investing in rural supply chains and enterprises on behalf of IFMR Trust, the promoter
- Practical insights gained from action-research undertaken by the Fund's affiliate, the Institute for Financial Management and Research (IFMR)
- Partnerships with large companies and non-governmental organisations (NGOs) facilitated in large part by the ICICI group of companies working through the ICICI Foundation, a mentor to IFMR Trust.

Investment in a Network Enterprise in the NEF's focus sector depends on meeting the following criteria:

- It has a strategy of investing in rural supply chain acceleration and meets the definition of Network Enterprises
- It identifies and invests in enterprises in the rural supply chain gaps of the focus sector
- It is led by an entrepreneur in residence with proven commitment and integrity
- It is engineered for scale and current returns

The NEF will invest in 10 to 15 enterprises. Average investment size would be the equivalent of Euros 3.5 – 7 million (USD 5-10 million). Foreign entrepreneurs are eligible to apply but since experience and a profile within India are necessary, an Indian partner is strongly advised.

Exit Strategy: The NEF expects to get returns in the form of regular dividend and interest payout by the investee companies. It may also make additional returns in the form of terminal value. Promoter buyback/ trade sales are the likely exits.

<http://ifmrtrust.co.in/ventures/itas.php>

2. National Equity Fund Scheme

Promoted by the Small Industries Development Bank of India (SIDBI), the National Equity Fund Scheme (NEF) provides soft loans to Indian entrepreneurs working in the small scale sector,¹ who require funds to set up new projects or modernize, expand or upgrade technology in existing units. The soft loans are provided under the following norms:

- Scheme operated largely through Scheduled Commercial Banks and selected Urban Co-operative Banks
- The cost of project is not to exceed Rs.5 million
- The soft loan limit will be 25% of cost of project subject to a maximum of Rs.10,00,000 (Euros 17,000) per project
- The service charges are 5% per annum on the soft loan

Source: <http://www.sidbiventure.co.in>

V. DEBT AND BUSINESS LOANS

1. Acumen Fund

The Acumen Fund can invest in a variety of institutions, reflecting the diversity of business models that can be effective in reaching the “base of the pyramid” (BOP)—or the billions of poor without access to clean water, reliable health services, or formal housing options. Eligible institutions for our financial support range from non-profit organizations seeking to scale their operations and achieve financial sustainability, to small and medium for-profit companies in need of capital, to larger companies that are starting specific business units to serve the BOP.

Primary Investment Criteria

Potential for Significant Social Impact: Companies need to make a product or deliver a service that addresses a critical need at the BOP in the areas of our strategic and geographic focus. Delivery of the products or services should generate social outputs that compares favourably with products or services either currently available on the market or through charitable distribution channels.

Potential for Financial Sustainability: A clear business model that shows potential for financial sustainability within a five to seven year period, including the ability to cover operating expenses with operating revenues. This period corresponds to the tenor of most commercial loans, and positions entrepreneurs to access commercial finance in the future.

Potential to Achieve Scale: An objective of reaching approximately one million end users within a five year period with the benefits of the product or service. If the entrepreneur's business model does not aim to reach one million consumers, does it have the following:

- The potential to grow by an order of magnitude (i.e., 10 times) within 5 years?
- Potential for material impact on the social problem it is trying to solve?

¹ Small Scale Industries (SSI) are defined differently for manufacturing and service sector industries. For enterprises engaged in manufacturing products, small scale sector is defined by investment of between 45,000 and 900,000 Euros in plant and machinery. For enterprises engaged in providing services, the small scale sector is defined by investment of between 17,000 and 350,000 Euros in equipment (http://www.laghu-udyog.com/ssiindia/defination_msme.htm).

- A position as one of the leading service providers in the market in which it operates?
- A strong and experienced management team with the skills and will to grow a sustainable enterprise at the BOP?
- The presence of a strong management team that has the requisite skills to execute the business plan and a clear and compelling vision?
- A management team with the will to work with the market to achieve the goal of serving the BOP?
- A management team with positive ethics?

Investments

Acumen capital commitments range from \$300,000 to \$2,000,000 in equity or debt with a payback or exit in roughly five to seven years. Debt, however, is the prevailing form of Acumen Fund investment. Direct equity is in the form of common fully voting shares or preferred shares. Acumen equity investments are minority stakes and the Fund plays a management role through advisory services and a position on the board of directors. Guarantees are provided to third party lenders, such as local banks, to stimulate access to local sources of capital. Acumen also makes 'lab investments', which are smaller-scale, high-risk experimental investments, where funding can be disbursed rapidly and lessons can be learned in the short-term.

2. Government loans for Small and Medium Enterprises (SMEs)

Financial assistance for Micro, Small and Medium (MSME) units in India is available from a variety of government institutions. Long and medium term loans are provided by State Financial Corporations, the Small Industries Bank of India (SIDBI: detailed below) and State Industrial Development Corporations. Commercial banks also finance fixed-term loans (detailed below), which is necessary to fund purchase of land, construction of factory building/shed and for purchase of machinery and equipment. Fixed-term loans are secured against mortgage of assets such as land, building, machines, equipment and other stocks. Short-term loans are required for working capital requirements, which fund the purchase of raw material and consumable, payment of wages and other immediate manufacturing and administrative expenses. Such loans are generally available from commercial banks.

There is, however, a single window scheme for MSME units under which one agency, either the bank or the financial institution, provides both the fixed term loan and working capital. This scheme applies to all MSME projects with project cost up to Rs. 5 million (90,000 Euros). The working capital loan is generally secured by (1) pledged stocks, raw materials and finished goods, (2) advances against work-in-progress and (3) advances against bills. For loans from financial institutions and commercial banks a formal application needs to be made. Details are available at <http://www.laghu-udyog.com/howtsetup/finance.htm>.

3. Commercial banks

Several banks give loans to cater to business requirements. Banks have laid out a number of products specifically catering to SSI (small-scale industries) and Small Business Borrowers. Business loans are available to firms and corporations to meet their operating expenses; to finance for capital expenditure / acquisition of fixed assets towards starting / expanding a business or industrial unit; and to swap existing high cost debt from other banks/ financial institutions, etc. Apart from providing funding, a bank can also issue letters of credit or can give a guarantee on behalf of the customer to the suppliers, government departments for the procurement of goods and services on credit. The maximum amount of business loan that can be sanctioned varies from bank to bank. Generally, the maximum loan amount is Rs. 25 lakhs and maximum loan tenure is 5 years.

<http://www.iloveindia.com/finance/loans/business-loans.html>

- A list of 27 nationalized (public sector) banks in India is available at the following URL, along with hyperlinks to their individual web-sites:

<http://www.iloveindia.com/finance/bank/nationalised-banks/index.html>

- A list of 19 major private sector banks in India is available at the following URL, along with hyperlinks to their individual web-sites:

<http://www.iloveindia.com/finance/bank/private-banks/index.html>

- A list of 9 foreign banks in India is available at the following URL, along with hyperlinks to their individual web-sites:

<http://www.iloveindia.com/finance/bank/foreign-banks/index.html>

Under the government's policy, all domestic banks (including private banks) and foreign banks are required to provide 40 per cent and 32 per cent respectively, of their net banking credit to the priority sector [agriculture and rural development]. Both public and private sector banks achieved their overall target for priority sector lending in 2005-2006. However, in 2006-2007, public sector banks fell short of the target of 40 per cent by 0.4 percentage points whereas the private sector banks achieved their overall target. By end March 2007, foreign banks had advanced 33.4 per cent loans to the priority sector, as against target of 32 per cent.

Source: <http://www.mainstreamweekly.net/article743.html>

Source: www.sidbi.com

4. Industrial Development Bank of India Limited (IDBI)

IDBI recently introduced the Credit Guarantee Fund Scheme (CGFS) to provide a major thrust to financing of Small and Medium Enterprises (SME) in India. The CGFS aims to provide working capital and term finance for capital expenditure and takeover of existing loans. All Micro and Small Enterprises (manufacturing and services) defined by the Ministry of Micro, Small and Medium Enterprises (MSME) under the Act of 2006 will be eligible to apply for funds from the scheme. The loan amount will be between Rs. 25,000 and Rs. 500,000 (450 and 9000 Euros).

www.idbi.com

VI. VENTURE CAPITAL

Venture capitalists prefer to invest in “entrepreneurial businesses”. This does not necessarily mean small or new businesses. Rather, it is more about the investment’s aspirations and potential for growth, rather by current size. Such businesses are aiming to grow rapidly to a significant size. As a rule of thumb, unless a business can offer the prospect of significant turnover growth within five years, it is unlikely to be of interest to a venture capital firm. Venture capital investors are only interested in companies with high growth prospects, which are managed by experienced and ambitious teams who are capable of turning their business plan into reality. (Source: <http://www.gvfl.com/entrepreneurs.htm>)

In India, the venture capital funds (VCFs) can be categorised into the following groups:-

- Those promoted by the Central Government controlled development finance institutions, for example:-
 - ICICI Venture Funds Ltd.
 - IFCI Venture Capital Funds Limited (IVCF)
 - SIDBI Venture Capital Limited (SVCL)
- Those promoted by State Government controlled development finance institutions, for example:-
 - Gujarat Venture Finance Limited (GVFL)
 - Kerala Venture Capital Fund Pvt Ltd.
 - Punjab Infotech Venture Fund
 - Hyderabad Information Technology Venture Enterprises Limited (HITVEL)
- Those promoted by public banks, for example:-
 - Canbank Venture Capital Fund
 - SBI Capital Markets Limited
- Those promoted by private sector companies, for example:-
 - IL&FS Trust Company Limited
 - Infinity Venture India Fund
- Those established as an overseas venture capital fund, for example:-
 - Walden International Investment Group
 - SEAF India Investment & Growth Fund
 - BTS India Private Equity Fund Limited

All these venture capital funds are governed by the Securities and Exchange Board of India (SEBI) . SEBI is the nodal agency for registration and regulation of both domestic and overseas venture capital funds. Accordingly, it has made the following regulations, namely, Securities and Exchange Board of India (Venture Capital Funds) Regulations 1996 and Securities and Exchange Board of India (Foreign Venture Capital Investors) Regulations 2000. These regulations provide broad guidelines and procedures for establishment of venture capital funds both within India and outside it; their management structure and set up; as well as size and investment criteria's of the funds.

Source: http://business.gov.in/business_financing/venture_capital.php

Some potentially useful Venture Capital companies to support the AT entrepreneur working in Water and Sanitation for the Bottom of the Pyramid India are the following:

1. **AAVISHKAAR – appropriate for the small-scale AT entrepreneur, along with Acumen (already mentioned in the AT BD Toolkit)**

The Aavishkaar India Micro Venture Capital Fund (“Aavishkaar”) is a venture fund founded to promote development in rural and semi-urban India. Aavishkaar believes entrepreneurs can be a powerful force for development. To this end, the firm provides micro-equity funding of Rs. 10 lakhs to Rs. 2 crores (approximately 17,800 to 357,000 Euros) and operational and strategic support to commercially viable companies increasing income in or providing goods and services to rural or semi-urban India.

Aavishkaar's mission is to support rural and semi-urban entrepreneurship with the provision of timely and appropriate financial investment, management support, professional expertise, and other resources. Aavishkaar looks for start-ups and functioning enterprises that either increase incomes or provide valuable goods or services for rural and semi-urban India. Aavishkaar offers various financial solutions to fledgling enterprises that fulfil its primary investment criteria so as to help them grow to a point whereby they can be self-sustaining or be in a position to acquire funds from larger institutions.

<http://www.aavishkaar.org>

2. **GUJARAT VENTURE FINANCE LIMITED – a general (and possibly expensive) fund, not focused on the small AT entrepreneur working for the BoP, but may be useful for larger-scale ventures**

GVFL Ltd. (formerly Gujarat Venture Finance Limited) is widely regarded as the pioneer of venture capital in India. GVFL Ltd. is an independent, board-managed, autonomous venture finance company based at Ahmedabad, Gujarat (India). Started in 1990 at a World Bank initiative under the Gujarat Industrial and Investment Corporation (GIIC), GVFL Ltd. is a ‘classical’ venture capital company focused on funding small and medium technology-based enterprises. Over the past 17 years, GVFL Ltd. has raised five Venture Capital Funds with a cumulative total of Rs. 1392 million. It is currently in the process of raising a SME Fund worth Rs. 2500 million of which Rs. 600 million has already been raised and the first closure of the fund has been declared. These funds are invested in 63 companies across the country, which are systematically provided financial and managerial support by GVFL Ltd. Today, The company has divested from 53 out of 63 investee companies. This fund is limited to Indian companies.

Sources:

<http://www.gvfl.com>

<http://www.gvfl.com/home.htm>

[http://www.indiacatalog.com/cgi-](http://www.indiacatalog.com/cgi-bin/show_wd_details.pl?t=Gujarat+Venture+Finance+Limited)

[bin/show_wd_details.pl?t=Gujarat+Venture+Finance+Limited](http://www.indiacatalog.com/cgi-bin/show_wd_details.pl?t=Gujarat+Venture+Finance+Limited)

3. **INFINITY VENTURE FUND – a general (and possibly expensive) fund, not focused on the small AT entrepreneur working for the BoP, but may be useful for larger-scale ventures**

Founded in November 1999, Infinity is India's first institutionalized angel fund which brought together Indian entrepreneurs and overseas entrepreneurs to fuel growth of start ups in India. Infinity closed fund raising in February 2000 and has invested in about 18 companies. The core investment philosophy of the fund is to:

- a) invest in technology companies; be it services or product or internet related companies
- b) follow a research based methodology to identify potential investment areas and understand emerging technologies and markets;
- c) generate deals proactively through a vast network within the Indian and US technology market and
- d) and be very engaged with every portfolio company, by nominating a person whose strengths best match the requirements of the portfolio company.

The Fund is open to both Indian and foreign entrepreneurs.

<http://www.infinityventure.com>

3. CAPITAL CONNECT – a source of funds for social entrepreneurs

CapitalConnect is an international information dissemination and price discovery platform for institutional investors, lenders and enterprises in the development sector. The automated platform improves the efficiency of capital formation in the private placement market; provides liquidity and more symmetric pricing opportunities to investors, lenders, businesses and entrepreneurs alike. This platform caters to Social Enterprises (organizations with a social objective and business approach), Institutional Lenders (institutions interested in lending to social enterprises) and non-retail Social Investors (who are either current or potential investors in social enterprises). The advantages for Social Enterprises include the following:

- Gain easier access to a wider set of lenders and investors
- Build better visibility for the institution in the banking and investment community
Communicate funding needs and raise fresh capital (debt and equity)
- Diversify pool of lenders and shareholders
- Get better market valuations – equity prices and borrowing rates
- Access institutional funding

However, this platform will be most useful for Social Enterprises that have a net worth of more than 900,000 Euros (see <http://www.business-standard.com/india/storypage.php?autono=319271>). There is no bar on foreign Social Enterprises.

Website: <http://www.edacapitalconnect.com/>