Waterfield Advisors
Waterfield Advisors is India’s leading Independent Multi-Family Office and Wealth Advisory Firm. Established in 2011, we advise on over USD 4.3 Billion of assets on behalf of several prominent Indian business families whom we serve from 6 offices in India. Waterfield advises our clients on financial and estate planning, succession planning, family governance and philanthropy.

www.waterfieldadvisors.com

Impact Investors Council (IIC)
The Impact Investors Council (IIC) is India’s preeminent member-based not for profit industry body set up to strengthen Impact Investing in the country. IIC’s key areas of activity and effort include advocacy and policy support, research, and publications in addition to a strong focus on impact measurement and management. We are supported by 40+ investors and ecosystem partners.

www.iiic.in
Family offices are coming into their own in India. A steady increase in wealth, juxtaposed against growing threats from climate change, poverty and inequality, has encouraged this growing cohort of wealthy families to create legacies that go beyond just financial wealth and contribute to a better and sustainable future. This intent, coupled with the autonomy and flexibility of capital, enables them to play a catalytic role in impact investing. However, India still has to unlock the full potential of family offices and there is an urgent need to enhance the understanding and knowledge about impact investing among all the stakeholders in the industry.

In a first of its kind study, Waterfield Advisors and the Impact Investors Council (IIC) have come together to present a comprehensive picture on the state and position of impact investing practices amongst family offices (FOs) and high net-worth individuals (HNIs) in India in an attempt to answer a variety of questions on the topic - is impact investing a credible investment option? How do FOs/HNIs view the trade-offs between risk, return and social impact? What more can be done to catalyze larger flows into the sector?

83 FOs/HNIs have been active in this space, investing a cumulative amount of 279.5 million USD between 2016 and 2020. However, at 3% of the total impact investment volume in India, the overall contribution is small. These 83 FOs/HNIs represent only a fifth of FOs/HNIs investing in VC deals, indicating the considerable potential to tap into a wider base of FOs/HNIs to engage with the impact movement. Out of the 83 FOs/HNIs, only 20% continued investing in subsequent years upon their entry, whereas the remaining 80% discontinued or dropped off, indicating low retention in the industry.

A majority of FOs/HNIs (52% by number but 3% by invested value) are active in the seed stage. In contrast, a few committed FOs/HNIs (27% of active FOs/HNIs in impact) are engaged in later stages and have been making large-ticket bets amounting to 85% of total impact investment by volume over the last five years. There is a significant opportunity for the sector to build on this emerging base of more engaged FOs/HNIs, and support FOs/HNIs to actively graduate from smaller seed stage interventions to later stages.
Direct investments into impact enterprises preferred, financial inclusion and healthcare remain favourite sectors

FOs/HNIs seem to prefer direct investments into impact enterprises as compared to investing through impact funds. Almost 60% of the total amount of investments in the impact sector has been made as direct investment, with the rest being made through impact funds. Overall, FO/HNI funding accounts for about 7.5% of the total AUM of Indian impact funds.

While FOs/HNIs have invested across a variety of sectors, financial inclusion and healthcare seem to be more in demand. About 50% of cumulative investments by volume made by FOs/HNIs are in these two sectors alone.

Ambivalence towards combining impact and returns, with many FOs/HNIs comfortable with below market returns

The community seems to be equally split through the middle on the issue of combining social impact and returns. Around 40% of the FOs/HNIs believed that social impact and financial return could be combined with a similar proportion believing the exact opposite. Interestingly, around 45% of FOs/HNIs seemed favourably inclined towards combining philanthropy and investing, and a similar proportion was willing to accept below market rate returns too, provided the social impact credentials were well established.

The study found widely differing views and preferences around impact investing as a strategy, presenting an opportunity for the sector to work with the FOs/HNIs to conceptualize impact investing as a continuum of impact and returns that goes beyond binaries and accommodates different archetypes of investors and capital.

Crucial to establish track record on social impact

One in two FOs/HNIs communicated that the inability to demonstrate social impact results was a key barrier in undertaking impact investment. A similar proportion felt that the lack of common frameworks and standards to measure and compare impact performance was a major issue and sometimes led to fears of impact washing. This is an important input for the industry, especially impact funds and wealth managers, to adopt and align to globally accepted impact measurement frameworks and communicate the social impact of their investments more centrally and comprehensively as part of their fund performance and credentials.
Limited product variety holding back FOs/HNIs, investment advisors need to up their game

Lack of good quality investment opportunities across the risk return spectrum that combined social impact and returns was reported by an overwhelming 65% of FOs/ HNIs as a key barrier. A quarter also expressed the desire for more geography and/or sector focused options as the market deepens to better align to their impact objectives.

23% of FOs/ HNIs stated that mainstream wealth advisors were unable to guide them and provide access to good options as they lacked impact orientation and treated impact investment as just another option in a basket of several products, without being able to differentiate its true nature.
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As the world sets its sights towards achieving the UN Sustainable Development Goals and climate commitments made at COP26, India will take center stage as one of the countries with the highest need but also the most potential to create deep and wide social and environmental impact.

Achieving this impact will require deployment of significant public and private capital to support entrepreneurs who are innovating around market-based solutions to sustainably address problems at scale. Over the last decade, investing in impact enterprises has slowly but surely emerged as a new and exciting asset class in India, whereby investors can mobilize capital to target people, planet and profit in tandem.

While the impact investing ecosystem in India is largely driven by global institutional investors, there is a smaller, more ubiquitous class of investors that has been taking a keen interest – the family office. Family offices are mostly established by individuals who have successfully traversed the difficult path of entrepreneurship themselves and are therefore not only sympathetic to new entrepreneurs but also able to help them navigate the journey with funds, skills and networks. Family offices have capital that is empathetic, flexible, patient and risk-taking, making them a natural ally for impact investing.

I see my work in investing, building responsible companies and helping them leverage technology as an extension of the work I was doing at Infosys, which has technology, innovation and strong ethics as its bedrock.

My own experience has led me to believe that India’s journey towards a US$10 trillion economy goal will largely be built on the backs of emerging entrepreneurs that are working towards solving the issues of the masses, especially those at the bottom-of-the-pyramid. India, with its rich pool of talent and social innovation, provides multiple opportunities and impact investing is an ideal conduit for socially conscious families to nurture such entrepreneurs, while also generating financial returns for themselves.

This first of its kind study by Waterfield Advisors and the Impact Investors Council comes at an extremely opportune time.

On the one hand, Covid-19 has created tailwinds for the impact sector, with a growing number of companies targeting healthcare, ed-tech, waste management and the blue-collar workforce. On the other hand, new family offices are emerging, and the Indian impact ecosystem is also evolving.

There is therefore a significant need and opportunity to bring more family office capital into this space. This report provides the data and evidence needed to understand trends and practices among family offices and the challenges faced in unlocking their participation. I hope that the report will become an important tool to catalyze action and capital for impact investment among family offices.

Kris Gopalakrishnan
Today, more than ever, as the world emerges from the Covid pandemic, we are seeing a growing recognition amongst Indian family offices and high net worth individuals to adopt a broader view of wealth as having human, financial, social and environmental dimensions or wealth with a purpose. Much like their global counterparts, they are becoming cognizant of their ability to create significant social and environmental impact through their investment decisions.

Complementing this awareness is India’s rapidly growing impact investing ecosystem, which is vibrant enough to offer a suite of tools on the return-impact continuum to deploy capital for sustainable development.

However, there is still a significant lack of shared understanding of impact investments among different stakeholders, including family offices.

Impact investing is nuanced as it is versatile; and as the wealth management ecosystem wraps its head around this new asset class, family offices are caught in a cycle of confusion and inaction, due to the lack of objective and data driven guidance that does not do justice to their goals.

This report aims to understand the emerging landscape amongst Indian family offices and to plug some of the major gaps in data and knowledge.

It provides recommendations to family offices on integrating impact investment in their overall investment and impact strategies, and also outlines the mindset with which the ecosystem needs to approach family offices.

At Waterfield, we see this report as a starting point in our sincere attempt to help domestic family offices understand, evaluate and mobilize capital towards impact investment, and thereby to help them bridge the gap between their purpose and their wealth.

Soumya Rajan
Founder & CEO, Waterfield Advisors
Message from Impact Investor Council

The Impact Investors Council’s (IIC) efforts are focused on attracting increasing amounts of capital to the impact investing ecosystem in the country. Over the last ten years, we have seen this sector grow by leaps and bounds, 600 impact enterprises have impacted 500 million lives, attracting over nine billion dollars in capital.

Much of this funding, however, is from international philanthropies and development institutions and reflects an untapped opportunity for domestic family offices and philanthropies to participate in this important alternative investment opportunity which can combine social impact with financial returns.

This report is an endeavour by us in collaboration with Waterfield Advisors to analyze the presence and participation of Indian family offices in this space. We have tried to combine hard data around investment volumes and overall participation by family offices with broader insights around the key structural challenges and impediments that are hindering more active participation.

Impact Investing presents a unique long-term opportunity for Family Offices to become catalysts of innovation, entrepreneurship, and social impact in the country. Our impact entrepreneurs can benefit significantly from Indian Family Offices by leveraging strategic capital and entrepreneurial and/or industry expertise.

We hope this report will provide useful inputs to all stakeholders in the sector, and help in creating a more vibrant impact ecosystem for India.

Jinesh Shah
Chairperson, Impact Investors Council
Managing Partner, Omnivore

Ramraj Pai
Chief Executive Officer, Impact Investors Council
1. Introduction
With a growing realization that issues such as climate change, poverty and economic inequality are having major impacts on wealth, a significant proportion of investors are beginning to understand the transformative power of their decisions. As investor realign towards more sustainable, responsible and impactful ways of investing there has been a surge in impact investing globally.

India is catching up with the rest of the world. Impact investment in India has grown at a 26% CAGR over the last decade (CY 2010-2019), from $323 million in 2010 to $2.7 billion in 2019, bringing in $10.8 billion cumulatively into 550+ enterprises.

However, based on trends in VC-PE investment, one could imagine that the spurt in impact investment in India is largely driven by global institutional investors – ranging from development finance institutions, VC funds, and global foundations. While this inflow of impact focused capital has helped build a robust ecosystem for impact investing, it continues to serve as a reminder that domestic private capital still needs to be fully tapped into. Bringing more domestic investors into the ecosystem can boost the impact investment sector, since such investors are more likely to empathize with national development imperatives, support home grown entrepreneurs and be patient.

Indian family offices (FOs) and high net worth individuals (HNIs) play an important role in changing this narrative. Over the last few decades, financial wealth in India has seen an almost consistent rise with the Hurun India Rich List 2020 adding 161 new names. According to the Knight Frank Wealth Report 2021, the number of UHNIs in India is expected to grow by 63% over the next 5 years. This growing cohort of extremely wealthy families with keen investment interests has resulted in a growing need for efficient and structured systems to manage wealth, giving rise to the concept of the ‘family office’.

A family office is a private entity that manages the wealth of ultra-high net worth families. As completely autonomous entities, family offices are governed and driven purely by the family’s own goals, values and ethos. It is this relative autonomy and flexibility in decision making, combined with extensive business and private networks and a growing desire to align wealth and values, that suggests that Indian FOs/HNIs can be a catalyst for domestic capital.

However, to unlock domestic capital, one needs comprehensive data and insights on trends, attitudes and perception of family offices as well as their challenges, barriers and enablers. The purpose of this report is to fill this white space by exploring the views of Indian FOs/HNIs with regards to impact investment. The report analyses data and insights from more than 700 impact enterprises between 2016 and 2020, a custom survey with 31 FOs/HNIs with cumulative net worth of at least USD 15.1bn and 15 impact funds. The report aims to help bridge the knowledge gap between FOs/HNIs and the impact investing ecosystem and use the findings to drive concrete action.
2. Landscaping the participation of FOs/HNIs in the Indian impact investing ecosystem

This section provides an overview of the participation of Indian FOs and HNIs in impact investing by exploring trends in investment over the years, volume of investment and sectors and asset class preference.
2.1 Indian FOs/HNIs remain a small minority in impact investment, though their participation shows an upward trend

At 7.5%, domestic FOs and HNIs make up a small proportion of total investors (83 out of 1,103) who participated in impact investing in India from 2016-2020, with an additional 3% being international FOs/HNIs. The majority of the investor base is made up of domestic and global institutional investors such as development finance institutions such as CDC, FMO, SIDBI, NABARD and commercial VCs/impact VCs such as Aavishkaar, Omidyar Network, Accel, Sequoia, etc.

Similarly, more than half of the impact funds surveyed acknowledged that there is a growing interest among Indian FOs/HNIs in learning more about the impact investing space, especially where FOs have set up formal structures. However, for most funds, this intent or interest is yet to translate into action-oriented investments towards impact.

In recent years, there has been a steady increase in FO/HNI participation in PE/VC investment\(^5\). This rise in conventional PE/VC participation could be reflected in an increased participation in impact investing, which is often viewed as a subset of PE/VC asset class. However, the 83 FOs/HNIs investing in impact deals represented only a fifth of FOs/HNIs investing in VC deals, indicating the significant potential to expand the investor base for impact investment.

### No. of unique investors

<table>
<thead>
<tr>
<th>Investor Type</th>
<th>Domestic</th>
<th>International</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>FOs/HNIs</td>
<td>83</td>
<td>30</td>
<td>113</td>
</tr>
<tr>
<td>Angels</td>
<td>185</td>
<td>42</td>
<td>227</td>
</tr>
<tr>
<td>Others</td>
<td>350</td>
<td>413</td>
<td>763</td>
</tr>
<tr>
<td><strong>Total Number</strong></td>
<td><strong>618</strong></td>
<td><strong>485</strong></td>
<td><strong>1103</strong></td>
</tr>
</tbody>
</table>

Table 1: no. of impact investors  
Source: IIC databases

As illustrated by Graph 1, overall participation by FOs/HNIs in impact investing showed an upward trend until 2018, plateauing a bit after that. Between 2016 and 2020, the total number of FOs/HNIs in impact investment increased by 50%.

This positive trend is consistent with the survey results, which noted that one in two FOs/HNIs surveyed had made impact investments in the last five years.

As illustrated by Graph 1, overall participation by FOs/HNIs in impact investing showed an upward trend until 2018, plateauing a bit after that. Between 2016 and 2020, the total number of FOs/HNIs in impact investment increased by 50%.

This positive trend is consistent with the survey results, which noted that one in two FOs/HNIs surveyed had made impact investments in the last five years.

Graph 1: no. of domestic FOs and HNIs in impact investing over years  
Source: IIC databases, FO/HNI could be overlapping across the years based on the no. of transactions undertaken

**UNLOCKING IMPACT CAPITAL**

5 Family Offices Investing in Venture Capital, SVB Capital, Campden Wealth, 2020
2.2. There is low retention of Indian FOs/HNIs in impact investment

As shown in Table 2, out of 83 unique FOs/HNIs that made impact investments between 2016 and 2020, 17 FOs/HNIs (20%) continued investing in subsequent years upon their entry, whereas the remaining 66 FOs/HNIs discontinued or dropped off. Year-on-year, there has been a healthy consistency in new FOs entering impact investing in India, but the industry is unable to sustain the FOs. This could be indicative of an early stage of FOs’ interest in impact investing, driven by opportunistic investing rather than a deliberate approach.

The industry needs to ensure that the exploratory interest can be converted into sustained commitment over time.

### Table 2: No. of new and continuing FOs/HNIs in impact investment, FOs/HNIs 'continued' means investment in any subsequent year

<table>
<thead>
<tr>
<th>Unique FOs/HNIs per year</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>20</td>
<td>9 dropped out</td>
<td>11 continued</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>11 dropped out</td>
<td>1 continued</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>18</td>
<td>15 dropped out</td>
<td>3 continued</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>17</td>
<td>15 dropped out</td>
<td>2 continued</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: IIC databases

2.3. The quantum of impact investment by FOs/HNIs is low but in line with global estimates

At USD 279.5mn, the quantum of investment by FOs/HNIs in impact investment remains small, accounting for 3% of the total impact investments in India in the last five years. Though a lower absolute amount, the proportion of contribution to impact investments by Indian FOs is similar to contribution by global FOs. The GIIN report estimated that global family offices accounted for 0.4% of total impact investment AUM at the end of 2018, amounting to USD 2bn. Mirroring the participation rates, the quantum of investment also saw a steady rise till 2019, dropping off in 2020. Between 2016 and 2020, the amount of funds grew by four times.

2.4. Indian FOs/HNIs show a preference for direct deals but also invest via impact funds

FOs/HNIs in India prefer direct investing. Of the total FO/HNI contribution of USD 279.5mn, around USD 164mn (almost 60%) was invested directly in impact enterprises, accounting for 2% of the total impact investment of USD 9.03bn into direct impact deals in the last five years. The remaining USD 115.5 mn was invested in impact funds, based on the flows of the largest 15 impact funds in India, accounting for 7.5% of the total AUM of USD 1548 mn between the 15 funds in the last five years.
This trend was corroborated by impact funds, where 62% believed that that AIF as an asset class structure is a new concept for FOs and they do not find it as attractive as it restrains liquidity for a long time.

Similarly, 82% of all FOs/HNIs surveyed and active in impact investment reported that part of their impact AUM went into direct deals (equity/debt), compared to 45% that had invested in funds (equity/debt). Some experienced FOs/HNIs in impact investment revealed during the interviews that direct ownership through equity not only allowed a more hands-on role in the growth of the enterprise (and therefore higher satisfaction), but also allowed them to make more deliberate impact choices with their capital. However, they agreed that impact funds were a sensible choice for those beginning their impact investment journey as direct deals require significant experience, the ability to diligence, time and dedication.

Another interesting, but not surprising, finding was the predominance of equity-based investments over debt-based options. Only 27% FOs/HNIs surveyed and active in impact investment had invested in debt tools (direct/funds), compared to 68% investing in equity (direct/funds).
2.5. Most Indian FOs/HNIs invest in seed stage, although a few mature ones are entrenched in late stages

An analysis of the last five years of impact investing deals showed maximum participation at the seed stage, with 52% FOs/HNIs participating in deals at this stage, but the volume accounting for only 3% of total impact investment, as these were likely to be very small ticket sizes.

While later stages saw lower participation in terms of proportion of active FOs/HNIs (26% in Series B+), these were likely to be more established and willing to take large bets in high-impact later stages, therefore making up 85% (USD 138.9 mn) of all impact investment by volume7.

<table>
<thead>
<tr>
<th>Stage</th>
<th>Number</th>
<th>Participation</th>
<th>Investment (USD mn)</th>
<th>Volume Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seed</td>
<td>43</td>
<td>52%</td>
<td>4.7</td>
<td>3%</td>
</tr>
<tr>
<td>Series A</td>
<td>14</td>
<td>17%</td>
<td>20.5</td>
<td>12%</td>
</tr>
<tr>
<td>Series B+</td>
<td>21</td>
<td>26%</td>
<td>138.9</td>
<td>85%</td>
</tr>
</tbody>
</table>

Graph 3: Split of FO/HNI investments in impact by direct deals and funds in USD mn across stages, total adds up to less than 100% as stage-wise data was not available for all FOs/HNIs

Source: IIC databases

7 The analysis of volume of investment by stage is limited to investments in direct deals and exclude funds.
The role of impact investors in seeding social innovation, supporting early stages of an enterprise and de-risking business model for commercial investors has been noted by another study by IIC\textsuperscript{8}. Thus, the high level of FO/HNI participation in seed stage is a positive finding, but the imperative for the industry is to ensure graduation of seed funders to later stages and expand the base of FOs/HNIs at later stages of impact investing.

2.6. Financial inclusion, healthcare and tech for good remain popular with Indian FOs/HNIs in impact investing

Reflecting the sectoral trends in impact investment ecosystem in India and globally, financial inclusion accounted for a majority of the share by participation and volume among FOs/HNIs\textsuperscript{9}. This was followed by healthcare and technology for good.

Climate tech was emerging to be a hotspot, accounting for the largest share by volume, driven by few FOs/HNIs taking large bets mainly on the electric vehicle sector, including deals such as Ola Electric, Ather Energy etc.

These findings appear to align with the sector focus of global family offices. The UBS Global Family Office report of 2021\textsuperscript{10} stated that the top three sectors for impact investment were education, climate change and healthcare. Similarly, a study by the University of Zurich\textsuperscript{11} which mapped 32 Global family offices noted that the three primary sectors of impact investing were energy and resource efficiency, access to finance, and healthcare and wellness.

The findings are based on pre-pandemic transactions. On expected lines, while conducting the survey, healthcare and education related investments saw a surge in interest and solicited far greater attention during the pandemic.

**Graph 4: Split of FO/ HNI investments in impact by direct deals in USD mn**

*Source:* IIC databases, FO/HNI could be repeated in each category

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\textsuperscript{8} The India Impact Investing Story, IIC and Asha Impact, 2020

\textsuperscript{9} The analysis of volume of investment by sector is limited to investments in direct deals and exclude funds.

\textsuperscript{10} UBS Global Family Office Report 2021, UBS

\textsuperscript{11} Impact Investing: Mapping Families’ Interests and Activities, University of Zurich and ImPact, 2021
2.7. Domestic FOs/HNIs in impact investing demonstrate significant variety

The interviews with FOs/HNIs found that there were two main entry points into impact investment –

I. Journey from venture philanthropy to social venture capitalism i.e. experienced philanthropists who see impact investment as a means to fulfil their impact objectives.

II. Journey from commercial venture capitalism to social venture capitalism i.e. FOs/HNIs who see impact investment as a diversification strategy for their VC/PE investing.

Based on these two entry points, one could imagine four types of archetypes, each with its own set of motivations, expectations and preferences on the return-impact spectrum.

These archetypes show that FOs/HNIs are far from being homogenous, reinforcing the thinking that impact investment goes beyond simple binaries and can accommodate all types of investors and capital along a spectrum of returns and impact. The ecosystem needs to develop more suitable strategies and products for each type.
Archetypes

The Champion

Strategy
• Early adopters with prolific track record
• Clearly delineated impact investment allocation
• Clear investment and impact thesis
• Most have sectoral preferences. Some believe in social entrepreneurship as means to achieving development goals
• Believe that social impact can scale and in turn generate financial returns
• Guided by research and personal experience
• Dedicate time and networks

Return Expectation
Balanced

Types of Deals and Transactions
• Preference for direct deals, but also invest in some funds
• Willing to invest in early stages
• Medium to large ticket size

The Philanthropist-Turned-Impact-Investor

Strategy
• Experienced philanthropists, often with own foundations
• Motivation stems from achieving scale and sustainability of social/ environmental impact, which market-based solutions are suited to
• Many have sectoral preferences
• Razor sharp focus on impact throughout the investment lifecycle
• More sympathetic to the complicated nature of running successful business models for poor

Return Expectation
Lower than market return

Types of Deals and Transactions
• Willing to consider impact funds + direct deals
• Willing to invest in early stages if there is a mission match
• Medium ticket size
Archetypes

The Explorer

**Strategy**
- Younger generation, more woke and aware
- Still in the process of discovering and understanding impact investment and its nuances
- Motivation stems from curiosity to understand impact investment
- Anecdotally, seem driven by younger women members of the family
- Willing to dedicate intellectual capital and formulate their own opinions

**Return Expectation**
Balanced

**Types of Deals and Transactions**
- Willing to consider impact funds + direct deals
- Relatively smaller ticket size

The Commercial Investor

**Strategy**
- Traditional PE/VC investors
- Generally, sector agnostic, mostly back tech-based solutions
- May or may not have a separate impact thesis

**Return Expectation**
Risk adjusted market returns

**Types of Deals and Transactions**
- Willing to consider impact funds + direct deals
- Medium to large ticket size
- Prefer to come in at slightly later stages and help scale with significant capital
Paula Mariwala has long been a champion of the entrepreneurial ecosystem in India. Having worked in the start-up world of Silicon Valley and with a strong entrepreneurial family legacy to back her up, Paula began her association with impact investment in 2006. Over the last 15 years she has invested in several impact enterprises and funds across multiple sectors.

Her foray into the world of impact investing was driven by a simple motive - there are large socio-economic problems that need to be solved and investments in companies working towards solving these problems will have significant social impact. Paula’s problem-solving approach to investing has led her to have a unique view of the impact investing ecosystem and its many stakeholders. As an impact investor, she believes that investing and philanthropy could be complementary, but the strategies and pools of capital should be clearly earmarked and kept separate. She has clearly defined metrics of success and selection criteria that shape her decisions.

For impact investing, the selection criteria, while focused on valuation metrics, is first and foremost focused on the entrepreneur – his/her passion, experience, motivation & plans.

She spends significant time not only understanding the business model and execution granularities, but also the person behind the idea. For entrepreneurs that make the cut, Paula believes in significant support and patient, untethered capital. As an investor, she leverages her experience to provide guidance and direction and ensures that her investees are given sufficient time and flexibility to test their ideas and not pressured to pivot from their goals in pursuit of returns.

While equity remains the most common type of capital, Paula is a firm believer in the potential of ‘friendly debt’. While cashflow and working capital needs are acute, access to affordable debt is difficult for young impact enterprises due to the perceived risks and lack of creditworthiness. As a problem-solving focused investor, Paula understands this gap and works with her investees to not only provide such capital but also unlock further capital by evangelizing the potential for friendly debt within her own network. Many of her investees have received hybrid capital that has allowed for them to scale without having to realign their values and business goals.
As an investor and businesswoman, Bhairavi Madhusudhan Shibulal has always had a very conscientious and ethical approach to business. Bhairavi’s business acumen stemmed from a mix of academic excellence and family guidance. However, the key driving force behind her approach has always been her own lived experience. Her mother was diagnosed with cancer and Bhairavi took on the role as her primary care giver. Having to deal with the physical and emotional challenges that came with caring for a loved one with cancer, Bhairavi experienced firsthand the toll it took on the patient as well as the patient’s care givers and family members. Determined to help millions of other families deal with this agonizing journey, she was keen to encourage innovative solutions in the field of oncology and decided to start investing in such ventures.

In order to create a specific impact and investment thesis, Bhairavi decided to first explore the landscape to better understand the scope of the problem and the range of solutions. The first few months were marked by intensive landscape analysis and multiple conversations with experts and oncologists. This led her to develop an impact thesis focused on patient-centric companies developing evidence-backed and empathetic solutions that make cancer care more accessible, affordable and generate higher awareness.

Bhairavi’s selection criteria has evolved with her own understanding of the healthcare sector. While any enterprise being considered for investment is generally evaluated based on its leadership, team, advisory board and business acumen, Bhairavi emphasizes the importance of strong domain expertise and technical understanding among founders of companies working in healthcare.

Bhairavi’s investment thesis builds on her belief that social innovation requires a long-term approach with patient and active capital. Both financial and sweat equity is required to ensure that social enterprises grow and succeed. She not only invests in funds, but also leverages her own networks for each of her investees. Her preference for direct equity investments in companies stems from her clear vision of what she wants to achieve through her investment and allows her a larger role in guiding the business towards growth and impact. She believes that there is no strict formula for size of investment in each company; it is based on the needs of the enterprise. As an impact focused investor with a clear mandate, she believes in measuring both performance (financial) and progress (impact) and is willing to accept below market returns if the enterprise is truly making an impact on ground.

So far, Bhairavi has invested in innovative enterprises, both within India and overseas, working in diverse areas ranging from therapeutics to genomic analysis to comprehensive care platforms.
3. Perspectives of Indian FOs/HNIs on impact investing

Having established the extent of FO/HNI participation in impact investment, this section analyses the perceptions and attitudes of FOs/HNIs towards impact investing, including the key barriers they face.
3.1. While FOs/HNIs show a broad understanding of impact investment, they grapple with the details

While impact investing has only recently come to the forefront of mainstream investment discussion, there appears to be a broad understanding of what impact investing means. Of the FOs/HNIs surveyed for this report, a majority (72%) had a clear understanding of impact investing i.e., the act of investing in companies that pro-actively and intentionally create positive social or environmental impact while generating profits. A smaller proportion (28%) appeared to confuse impact investing and ESG investing. The interviews highlighted that beyond the basic understanding, there was significant debate and discussion around the modalities of impact investments, primarily around impact articulation, measurement, and management. The limited understanding among FOs of impact investment was highlighted as the second most common challenge faced by impact funds.

“I would like to keep impact and returns separate. Let philanthropy take care of impact while investing can focus on returns. Mixing the two muddies the water for me. Within our investments, we have a strong focus on ESG considerations to ensure we are creating responsible and well governed businesses.”

- Head of a family office

3.2. Attitudes towards impact investing remain uncertain, but with an opportunity to influence favorably with data and dialogue

Impact investing is often seen as occupying the space between philanthropy and traditional investing and therefore comparisons with either end of the spectrum is inevitable. FOs/HNIs seemed unsure about the relationship between social good and financial returns. Overall, the opinions were split 50-50, highlighted as below –

- 52% of Indian FOs/HNIs believed that doing good need not be entirely philanthropic in nature and that there can be a financial return expectation.
- At 43%, a similar proportion felt that financial and social/environmental returns can go hand in hand.
- 47% respondents seemed amenable to combining philanthropy and investing.
- 48% believed that one did not have to give up returns for impact (and vice versa).

A few FOs/HNIs highlighted the conflict and confusion they felt when deciding on doing good through philanthropy versus via impact investing, preferring to stay true to form for each.

This view was corroborated by impact funds where a majority of them reported experiencing a binary mindset among FOs/HNIs - commercial returns on one spectrum and philanthropy on the extreme end, and keeping these two separate.
This dissociation between investments and impact goals was highlighted as the most common hurdle by impact funds in unlocking FO capital for impact investing.

A few FOs/HNIs shared their strategies on delineating between the two, deploying grant philanthropy when addressing issues of the poorest segments of the society, where market-based solutions could not thrive.

It thus appears that attitudes towards impact investment remain ambivalent, implying an opportunity to nudge FO/HNIs towards impact investment by addressing the key concerns (discussed in section 4).

3.3. Expectations on financial returns from impact investing divided equally between market & below market rates

On the impact and return spectrum, return expectations among FOs/HNIs were more or less evenly distributed - 55% respondents stated that they expected their impact investments to give them risk-adjusted, market rate returns, while 45% reported being willing to accept concessionary returns. Of the 45%, 20.7% FOs/ HNIs reported that they would expect and accept below market returns, but closer to market rate, although at 24.2%, a significant minority stated that they would largely hope to only preserve their capital. Of the respondents who stated that they expect below market returns, a majority believed that there is a trade-off between impact and returns.

Other studies have also noted a recent predilection of FOs/HNIs towards an impact-first position globally and Indian FO/HNIs seem to be mirroring this. Not constrained by fiduciary responsibilities to any other external stakeholder, FO/HNIs have the freedom to define their own investment and impact thesis and prioritize social returns over financial returns, thereby making them a coveted source of capital.

The experience of impact fund managers on returns expectations was slightly varied. A majority of the fund managers (87%) reported that FOs/HNIs who invested with them prioritized financial

<table>
<thead>
<tr>
<th>Attitudes towards returns and impact</th>
<th>Strongly agree or agree</th>
<th>Strongly disagree or disagree</th>
<th>Neither agree nor disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Doing good should be philanthropic in nature and not make a return</td>
<td>41%</td>
<td>52%</td>
<td>7%</td>
</tr>
<tr>
<td>Investments and returns can dilute the focus on social/environmental impact</td>
<td>39%</td>
<td>43%</td>
<td>18%</td>
</tr>
<tr>
<td>I would rather make money from traditional investing and undertake philanthropic giving separately</td>
<td>43%</td>
<td>46%</td>
<td>11%</td>
</tr>
<tr>
<td>There is no trade-off between financial returns and impact</td>
<td>48%</td>
<td>41%</td>
<td>11%</td>
</tr>
</tbody>
</table>

Graph 5: Attitudes towards returns and impact
Source: FO/HNI Survey

12 Back to the Frontier: Investing that Puts Impact First, Bridgescan 2021; Voices Across the Returns Continuum, Omidyar Network: https://beyondtradeoffs.economist.com/voices-across-returns-continuum
returns and expected risk-adjusted market-rate returns. This was also reflected in a majority of funds (64%) reporting that FOs/HNIs expected to earn an IRR of more than 20%. Given that impact funds and their distribution channels may tap into FOs/HNIs with significant experience of PE/VC investing, there is a higher likelihood of them seeing investors whose expectations are closer to commercial investing.

However, there is a substantial opportunity for the funds to tap into the pool of FOs/HNIs with concessionary expectations by strengthening their impact measurement and management and showcasing impact more effectively.

“I am fine with lower returns and higher impact. I feel the impact investment industry is not emphasizing the impact side of the story adequately. In trying to establish competitive returns ventures or funds that don’t generate market returns or are slow to grow are being filtered out.”

- An UHNI and an active investor

“Despite the theory, it is difficult to achieve the balance between returns & impact in practice as businesses that provide products or services to low-income populations typically tend to operate at lower margins due to limited disposable incomes of such populations. While they can generate commensurate returns in the long run, they take longer to scale and need more support.”

- An UHNI and an active investor

Graph 6: Expectations on returns
Source: FO/HNI Survey
The experience of impact fund managers on returns expectations was slightly varied. A majority of the fund managers (87%) reported that FOs/HNIs who invested with them prioritized financial returns and expected risk-adjusted market-rate returns. This was also reflected in a majority of funds (64%) reporting that FOs/HNIs expected to earn an IRR of more than 20%. Given that impact funds and their distribution channels may tap into FOs/HNIs with significant experience of PE/VC investing, there is a higher likelihood of them seeing investors whose expectations are closer to commercial investing. However, there is a substantial opportunity for the funds to tap into the pool of FOs/HNIs with concessionary expectations by strengthening their impact measurement and management and showcasing impact more effectively.

<table>
<thead>
<tr>
<th>Return expectations of Indian FOs/HNIs IRR</th>
<th>% of Fund Managers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 10%</td>
<td>0</td>
</tr>
<tr>
<td>11-15%</td>
<td>21%</td>
</tr>
<tr>
<td>16-20%</td>
<td>14%</td>
</tr>
<tr>
<td>21-25%</td>
<td>50%</td>
</tr>
<tr>
<td>26-30%</td>
<td>14%</td>
</tr>
</tbody>
</table>

Table 3: Return expectations according to fund managers  
Source: Impact fund survey
Pravin Gandhi has been an active investor in the impact sector for more than 10 years. Pravin Bhai (as he is fondly referred to in the space) has invested directly in seven impact enterprises and in another ten through an impact fund. His impact focused investments cover enterprises such as 1Bridge, Brun, Donatekart, Awaaz.De, Lal10 and DanaMojo. While not being the largest investor, he does act as a sounding board for the investee companies, an important requirement at early stage. He serves on the Investment Committee of Aavishkaar Bharat Fund and Ankur Capital. Pravin Bhai is also a veteran philanthropist and has his own foundation, Sahayog. He has thus devised clear philosophies to demarcate between philanthropy and impact investment.

According to Pravin Bhai, in some cases, a non-profit and an impact enterprise may be delivering a particular service or product in very similar ways. When evaluating such entities, his evaluation criteria consider, amongst other things, the key end beneficiary. If the enterprise is dealing with the most underserved communities with no capacity to pay for services, then philanthropic grants are the most appropriate mode of capital allocation. However, if the end beneficiaries have the capacity to pay for services, even at lower rates, the enterprise may be better suited for investment capital that goes towards growth and expansion but comes with a clear return expectation. Similarly, if an enterprise has indirect impact on an end beneficiary, by reducing costs of products or services, improving access or distribution, or creating market linkages, it can be considered for impact investment. He is mindful that margins for such enterprises maybe small and therefore willing to consider lower than market rate returns.

As a tech aficionado, Pravin Bhai also views investments in tech-based impact enterprises as a means to leverage technology to enable social impact at lower costs and higher scale and make the sector more collaborative and transparent. His investments in tech-based platforms such as Lal10, Donatekart, Awaaz.De and DanaMojo are examples of this thesis. Lal10 enables artisans and other such MSMEs to easily digitize, manage and sell their inventories for cross-border wholesale. Awaaz.De develops inclusive mobile solutions (with capabilities in IVR, SMS, mobile apps, and web) that enable organizations to achieve last-mile connectivity for social impact. Donatekart is an online platform for social organizations to easily procure products whereas DanaMojo is one of India’s first exclusive payments solution platform for non-profits. In his words, “impact investing needs one to marry altruistic intent with the acumen of venture capitalism”.
4. Barriers and challenges

This section covers the main barriers and challenges faced by investors within the impact investing ecosystem
At 90%, there was a consensus among surveyed FOs/HNIs that the impact was still at a nascent stage in India. As such, investors wanting to engage with the sector were bound to face several challenges and teething issues.

The barriers or challenges could be categorized into two broad buckets – those related to the field of impact investment in general and those related to specific products/strategies.

**Industry-wide Barriers**

- Inability to demonstrate impact results: 58%
- Lack of a common frameworks and language to measure and compare impact performance: 48%
- Inability to demonstrate financial results: 32%
- Lack of skilled professionals/experts: 29%
- Impact/green washing: 26%
- Wealth advisors/managers unable to give access to good options: 23%

**Product Barriers**

- Lack of good quality investment opportunities across the risk-return spectrum: 65%
- Lack of suitable exit options: 32%
- Lack of sector specific or geography specific funds: 26%
- Inability to accept small ticket sizes: 13%
- Inability to accept large ticket sizes: 10%

*Graph 7: Main barriers or challenges faced by family offices with regards to impact investing*

*Source: FO/HNI Survey*
4.1. Inability to articulate, measure and compare impact is a key barrier for Indian FOs/HNIs

A majority of FOs/HNIs (58%) stated that the inability to demonstrate impact results was a key challenge for the industry, along with lack of common language and frameworks to measure and compare impact performance (cited by 48%). The industry’s use of the term ‘impact’ was broad and covered all types of metrics, from those related to company’s own organization performance to outputs, reach and actual changes in people’s lives. The lack of standardization further exacerbated the investors’ concerns around comparing their investments from an impact standpoint, even within similar sectors.

This, coupled with their limited knowledge of impact measurement, sometimes made FOs/HNIs suspicious about impact washing, as voiced by 26% of respondents. Challenges related to impact measurement and management have been universally noted across regions and attempts have been made to create shared understanding and resources such as IRIS+ by the Global Impact Investing Network (GIIN), Impact Management Project etc. However, these frameworks themselves are still evolving to account for the complex challenges and their adoption has lagged.

“Returns have been sold with the social angle. That’s why I stay away”

- Principal of a single family office

4.2. The impact investment industry is unable to adequately demonstrate a long track record of financial results

Along with impact or social returns, a sizable portion of FOs/HNIs (32%) felt that the inability to demonstrate financial results over a longer period of time was a key challenge for the impact industry ecosystem. Given the nascency of impact investing in India, the track record of financial success stories is still lacking, further compounded by the diverse expectations on the return-impact spectrum seen in the previous section.

4.3. The industry lacks skilled professionals

29% of respondents stated that impact funds and enterprises often lacked skilled professionals with adequate on-ground experience who were equipped to understand, appreciate and adequately manage the challenges faced by complex business models that cater to sustainable development, while growing them.

“Growing businesses that serve the poor or promote development is not easy. I don’t see people with the right skills, knowledge or track record who can achieve this.”

- Principal of a single family office
4.4. Wealth managers & advisors lacked specialized impact investing skills

23% FOs/HNIs stated that wealth advisors/managers were unable to give them access to good options. This lack of proactive focus on impact investing by wealth managers has been noted in other studies. For example, the study by University of Zurich noted global FOs’ lack of confidence in investment abilities of external advisors, relying on in-house impact specialists or independent consultants who specialized in impact investments.

Distribution-related challenges were also highlighted by a few investors and impact funds during interviews, who felt that wealth managers lacked impact orientation and treated impact investment as just another option in a basket of several products. Because of relatively low incentives on impact-related opportunities, or differential returns, wealth managers did not prioritize them or do justice to their true nature and spirit.

4.5. Lack of product variety was keeping away FOs/HNIs

65% FOs/HNIs reported experiencing difficulties in sourcing opportunities that could deliver both social and financial returns. While 26% stated that lack of sector-specific or geography-specific funds, which matched their impact focus was a challenge, the desire for sector-specific opportunities contrasted with 32% FOs/HNIs stating that lack of suitable exits was a barrier—exits for sector-specific funds would be even more difficult due to lack of depth of market. A related issue was the lack of products that could absorb varying ticket sizes.
“We have allocated 30% of our investible assets to ESG & impact, which is a sizeable amount. Instead of many fragmented investments at pre-series A stage, we want to undertake investments in growth stage impact companies. However, we struggle to find a good pipeline.”

- Principal of a single family office

“The surface area of opportunities for REAL impact (outside of the general impact of enterprise) and decent financial returns is relatively small, but worth the pursuit.

- A single family office
5. Recommendations

This section highlights certain key recommendations for investors and the wider ecosystem to help catalyze FOs/HNIs’ role in impact investment.
The findings of this study have shown that while current contributions of FOs/HNIs to impact investment may be small, there is a huge potential waiting to be unlocked, accelerated by the growing interest and relevance of FOs/HNIs in creating a sustainable positive change in the country. This section highlights certain key recommendations for investors and the wider ecosystem to help catalyze FOs/ HNIs’ role in impact investment.

5.1. Recommendations for FOs/HNIs as investors

A broader approach of ‘capital for sustainable development’ can allow for multiple pathways to creating impact.

India’s environmental and social issues are of a nature and scale that need a variety of capital and resources to address them. There is enough and more room for philanthropic, impact and commercial capital to co-exist & complement each other in alleviating these challenges, instead of displacing each other. Therefore, in their attempts to give their wealth a purpose and create positive legacies, FOs/ HNIs could broaden their approach by thinking of ‘capital for sustainable development’ as a broad umbrella, with philanthropy, social finance, impact investing as all tools in that arsenal.

Depending on the nature of problem and solution needed to address it, the FO/ HNI could select an appropriate tool. As a broad rule of thumb, impact investment is best suited for issues that lend themselves to market-based solutions and revenue models. Philanthropy is best suited to develop and provide products and services to the poorest segments of society (where purchasing power is extremely limited) and address complex issues such as domestic violence, human rights, advocacy etc.

Defining an impact investing strategy aligned to one’s priorities could provide a purposeful direction.

As is clear, impact investment allows for a broad range of approaches across the return-impact spectrum, with investors ranging from those highly motivated by philanthropic ideals (the philanthropist-turned-investor) to those exploring different commercial avenues (the commercial investor). As such, it is imperative for a FO/HNI to define a clear strategy to navigate the various options provided by the ecosystem. The strategy should ideally build on the FO/HNIs primary motivations for impact investing and include a set of principles, criteria and guidelines, that may complement their philanthropic goals and traditional investment. The strategy should also takes into consideration the unique ground occupied by impact investment. In addition, the strategy could also go hand-in-hand with a separate pool of capital that is carved out for impact investment.

An impact investing strategy would be incomplete without an impact thesis. Investors can define the target groups they want to impact across the income pyramid and the outcomes they want to see for these groups (better incomes, better education, affordable healthcare, better market access etc.) An impact thesis can have a sectoral focus or be agnostic. While being sector-specific could allow a FO/HNI to secure more involvement and leverage expertise, it
could sometimes be rather difficult to find strong pipeline and exits within a specific sector. Being sector agnostic could allow a FO/HNI to invest in 3-4 sectors, and therefore offer better distribution of the risks, returns and impact.

**Exploring a barbell strategy to investment could help balance the return-impact equation**

The study showed that FO/HNIs faced dilemmas around balancing returns and impact potential of their investments. The barbell strategy is an investment concept that suggests that the best way to strike a balance between reward and risk is to invest in the two extremes of high-risk and low-risk assets. FOs by their very nature, have flexible pools of capital that can be allocated anywhere along the return-impact spectrum. Using an approach similar to the barbell, FOs/HNIs can strike a balance on the returns-impact continuum and cope with the trade-offs by investing in both, high-impact and high returns opportunities. There are many ways in which one could adopt the barbell principles, such as, including investing directly in social enterprises (which is usually seen as a high-risk, high-rewards and high-impact strategy) and balancing this out with investing in impact funds, (which are seen as less risky, but do not offer much scope for exercising choice). FOs/HNIs can also choose a mix of impact-first and returns-first impact funds.

Another option could involve balancing between equity and debt deals or funds.
As a fourth-generation entrepreneur and a passionate change seeker, Bhairavi Jani has built an extremely robust impact thesis for her impact investing. Bhairavi’s impact thesis clearly and sharply focuses on investing in enterprises in underserved regions of the country. She believes that while access to capital and networks have improved significantly for social entrepreneurs in metros, the penetration to tier 2 or 3 towns is still very limited. These enterprises do not have the same exposure and opportunities as their urban counterparts and thus do not get the chance to reach their full potential. Her investments therefore aim to bridge this gap and unlock additionalities for impact enterprises in smaller and/or underdeveloped regions of the country.

However, this clarity of thought did not occur overnight. It was a product of Bhairavi’s experience at India@75, an initiative for realizing the dream of an inclusive, sustainable and developed India by the year 2022, combined with first-hand ground data through an arduous journey of 18181 kms and 51 days across 25 states and 102 locations to gather information on peoples’ choices and views for livelihood and development.

Her impact thesis is reflected in her investments in Kashmir Box, a Srinagar-based online marketplace for Kashmiri handicrafts, handlooms and local produce, covering a community of 10,000 artisan and farmer families across the valley. Similarly, she has also invested in a Meghalaya-based enterprise.

In terms of investment thesis, she believes that for impact enterprise to be able to attract capital and sustain growth, it has to demonstrate financial viability of its business model.

It is not ok to not make a profit’ has been an impact investing mantra that has underlined all investment decisions. Therefore, in addition to the general focus on team expertise, sound governance, and product/service novelty, Bhairavi also evaluates an enterprise with a clear view of her exit opportunities. This razor sharp focus on both impact and profitability has resulted in an impact investing thesis that does not make concessions on either. Consequently, Bhairavi expects her investment’s EBTIDA to be within the range of 15-25%.

As a development and impact enthusiast, Bhairavi is a keen believer in evangelizing the success of impact investment. This stems not only from her belief that the ecosystem needs more champions, but also from a more business-oriented view that capital draws more capital. As an investor, she looks for success stories, not only from the impact enterprise, but more so from other impact investor LPs. According to Bhairavi, there is a dearth of such stories and LPs need to talk more about their successes to attract both commercial and impact investors into the ecosystem.

Case Study: Creating an impact thesis on the bedrock of ground data and experience
5.2. Recommendations for the wider ecosystem

Impact Investing is a relatively new yet flourishing asset class cutting across a variety of sectors, products and players. While the ecosystem for impact investing in India is vibrant with promising (with multiple entrepreneurs, incubators and accelerators, impact funds, impact measurement and management organizations) it may also seem overwhelming at the onset. The subjectivity of ‘impact’ itself and how different stakeholders interpret and deploy impact across their organizational strategies may lend to muddled positioning and understanding of impact investing opportunities in the wider network of FOs/HNIs.

There is, therefore, a clear knowledge and capacity vacuum on both sides of demand and supply of FO/HNI capital in the impact investing market in India. Bridging this critical knowledge gap necessitates opportunities for open dialogues and platforms that can educate and expose FOs/HNIs towards impact investment opportunities, at the same time sensitizing the larger ecosystem of impact funds and entrepreneurs of the strategic importance of FOs/HNIs. Creating a more facilitative environment for FO networks (including family members, advisors, teams etc.) requires targeted capacity development tools and programs through regular research publications, product showcases, etc.

There is an opportunity to expand the base of FOs by clearly highlighting social impact

This study clearly highlighted the variety in FO/HNI archetypes and their returns expectations, with 45% FOs/HNIs willing to consider concessionary returns if impact is outsized. Thus, there is a real opportunity to tap into the pool of FOs/HNIs coming at impact investing from an impact orientation. In order to achieve this, articulating and highlighting strong evidence of social will help corroborate the very thesis of impact investing, fortifying investors’ confidence. While the industry has made some strides in capturing impact, aligning with global frameworks and strengthening overall impact standards for both funds/asset managers as well enterprises is a pertinent step to helping FOs/HNIs understand and embrace the impact investing model more holistically.

Creating diverse investment products across the risk-return continuum

From the ecosystem perspective, impact investing can be better positioned as an approach with different products along the varying scales of return, risk and social impact profiles. The products could go beyond equity and consider debt, social finance (such as impact bonds) and other forms of blended or hybrid capital. Curating and strengthening a robust pipeline of investment products aligned to the ‘archetypes’ can help boost FO/HNI participation in impact investment considerably.
Donning her personal philanthropy and CSR hats, Rati Forbes has spearheaded a variety of grant programs to improve health, education, and livelihoods outcomes for the underserved and strengthen the capacity and leadership skills among and non-profits. Wanting to further explore innovative ways of mobilizing capital to create impact, Rati viewed impact investing as the next step in her philanthropic journey.

Rati’s foray into impact investment stemmed from a need to create a sustainable stream of impact capital. She viewed impact investing as a means by which her investment capital could be used to promote social entrepreneurship, create impact within her sectors of focus and any returns made could be ploughed back into other impact endeavors. She thus embraced the entire spectrum of capital available to create impact, from grants to social finance to impact investment. In this journey, she was joined by her daughter Riah, who naturally imbibed her family’s philanthropic focus and was working towards enabling more equity and inclusion within the entrepreneurial ecosystem in India. Riah had experience in helping entrepreneurs successfully launch and scale ventures and therefore a first-hand witness to the cruciality of patient, mission-led financing for such enterprises.

As a relatively new entrant into the world of PE/VC investing, Rati and Riah wanted to approach their impact investing journey in the same way they did their philanthropic one – through immersion, education and hands-on learning. As a first step, they worked with advisors to develop a strategy for allocating capital for impact investment. This involved taking a broader perspective and dividing the allocation into three separate investment branches – impact funds, direct investments into impact enterprises within sectors of interest and investments into hybrid social finance models. With a strategy in place, Rati and Riah focused their efforts on learning about the impact investing ecosystem. This involved numerous conversations with impact fund managers, founders of social enterprises as well as others in the ecosystem on topics ranging from fundamentals of investing, types of hybrid capital, modalities of returns, impact measurement processes, etc. Rati and Riah are now keen to define a learning agenda for each of their investments in collaboration with the enterprises, funds and advisors, so that they are equipped with data, insights and knowledge that guide their impact investment journey.
Methodology
Defining impact investment

This study defined impact investments as investments made with the intention to generate direct positive, measurable social and environmental impact alongside a financial return, as articulated by GIIN\textsuperscript{13}. Impact investment displays a set of core characteristics, as explained by GIIN –

- **Intentionality**: impact investments intentionally support solutions that address specific social and/or environmental issues

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**The Impact Economy Spectrum**

<table>
<thead>
<tr>
<th>Approach</th>
<th>Traditional</th>
<th>Responsible</th>
<th>Sustainable</th>
<th>Impact driven</th>
<th>Philanthropy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Impact goals</td>
<td>“Finance First”</td>
<td>“Impact First”</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Description</td>
<td>Limited or no regard for ESG practices or vertical impact</td>
<td>Mitigate risky ESG practices often in order to protect value</td>
<td>Adopt progressive ESG practices that are expected to enhance value</td>
<td>Address societal challenges that generate competitive financial returns for investors</td>
<td>Address societal challenges that may not generate attractive commercial returns</td>
</tr>
</tbody>
</table>

While impact investment forms one of the many strategies under the wider ambit of responsible or ESG investing as shown below, this study focused purely on impact investing.

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Source: Adapted from Impact Management Project 2019, Bridge Impact

\textsuperscript{13} https://thegiin.org/impact-investing/need-to-know/#what-is-impact-investing
Criteria for inclusion

Families and HNIs with a net worth of USD 1mn or more with either a separate and formal family office or informal or embedded set-ups, were included in this study. The study also surveyed 15 funds with AIF structures focused on India selected for their alignment to the definition of impact investment mentioned before.

Research Methods

This study used a mixed-methods approach, relying on quantitative and qualitative analysis of deal flows, surveys, & interviews.

Quantitative Analysis

i. Deal flow data

This study uses IIC’s database of 782 impact enterprises that received equity funding between Jan 1, 2016 and December 31, 2020 in India. The following inclusion criteria was applied to categorise enterprises as impact –

a. Mass market focus: key stakeholders (clients, suppliers) are low (EWS/LIG) or middle income (MIG)

b. For profit business: focused on innovation and scalability – no not-profit or hybrid models

c. Focus on basic service delivery to underserved population (access and affordability)

d. Focus on providing livelihoods or income enhancement for low-income clients or suppliers
e. Focus on mitigating or adapting to effects of climate change

f. Impact intentionality: impact as stated objective and/or measured by firm or impact investor

All enterprises had to meet the first two conditions, and at least one of c, d, e, f in order to be selected. Data on investment activity for the list of impact enterprises was sourced from market databases (Venture Intelligence and Tracxn) and investors were segregated into different categories, including FOs and HNIs. In a few cases, where investment volume for FOs/HNIs was unavailable, estimation rate was based on survey responses and past benchmarks. Data on the family office's contribution to impact funds has been estimated from the survey responses on AUM size of impact funds.

ii. Structured Surveys

a. Family offices/ HNIs - a structured, digitized survey was circulated to a network of 80 FOs/HNIs between July and August 2021. 31 FOs/HNIs, with a cumulative net worth of at least INR 11,3902 Cr. or USD 15.1bn, answered the survey, with eight respondents not disclosing this detail.

<table>
<thead>
<tr>
<th>Organisation Type</th>
<th>No. of respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single Family Office</td>
<td>17</td>
</tr>
<tr>
<td>Multi Family Office</td>
<td>3</td>
</tr>
<tr>
<td>HNIs</td>
<td>10</td>
</tr>
<tr>
<td>Not Specified</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>31</strong></td>
</tr>
</tbody>
</table>

Table 3: Respondents by organization type

b. Impact Funds - a structured survey was administered to 15 impact funds (equity and/or debt funds) operating in India.

Qualitative Analysis

To supplement the quantitative data, qualitative insights were drawn from interviews with 11 FOs/ HNIs for better triangulation of findings.
Limitations

The survey could have faced a selection bias wherein FOs/HNIs more inclined towards impact investment were more likely to respond to the survey, thereby over-estimating their involvement in impact investment.

On the enterprise-level database, the details of the funding rounds have been taken from multiple sources and market databases and therefore could entail some inconsistencies on a source-to-source basis.
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