

*De Jure*

*October 18, 2022*

## Social Impact Funds under SEBI AIF Regulations – Impetus to Impact



## BACKGROUND



Social Impact has been a buzz word in the corporate world since corporate social responsibility has been made a mandatory requirement for the eligible corporates in India with its accompanying compliances. In this backdrop, the introduction of Social Impact Funds ("**SIF**") comes well-timed and in sync with the theme of the on-going phase wise introduction and revision of policies framed for streamlining sustainable and ethical role of corporates towards the society. The introduction of Social Impact Funds as part of the Securities and Exchange Board Of India (Alternative Investment Funds) Regulations, 2012 ("**SEBI AIF Regulations**") is a product of the vision shared by the Hon'ble Finance Minister as part of the Budget for financial year 2019-20, for realizing various social welfare objectives by, inter-alia, establishing a Social Stock Exchange under the ambit of Securities and Exchange Board of India (SEBI).

Social Stock Exchange is a separate segment of a recognized stock exchange having nationwide trading terminals permitted to register Not for Profit Organizations and / or list the securities issued by Not for Profit Organizations in accordance with provisions of SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018.

## REVAMPING THE 'SOCIAL' ELEMENT UNDER THE SEBI AIF REGULATIONS

SEBI, in furtherance to the vision shared by Hon'ble Financial Minister, had created a Working Group<sup>1</sup> to invite recommendations for the infrastructure and framework of the proposed Social Stock Exchange. It is pertinent to note that only 2.43%<sup>2</sup> (approximate) of the total amount invested in Category I Alternate Investment Funds has been invested in Social Venture Fund ("SVF") as at the financial year ended March 31, 2022. Owing to this, one can deduce that the concept of SVF, under the SEBI AIF Regulations, has clearly been a non-starter for all its practical purposes. The modest performance of SVF may primarily be attributed to the restrictive and rigid ambit of SVF in regards to the avenues of investment available and its proposition to the investors.

The Working Group, considering the performance (or rather the uninspiring performance) of SVF and with a view to boost and encourage the investments in projects having social impact, recommended the revamping of the concept of SVF by proposing a more refined, elaborate and ripened form of the socialistic approach - from being merely a token 'non-profit' stance to a more practical and realistic take on social element whereby the outcome of socialistic approach could be witnessed and ascertained i.e. the social impact. Thus, the birth of the term 'social impact fund' as the same succinctly conveyed the purpose of the fund to the Investors and other stakeholders. One may call SIF as SVF version 2.0.

---

<sup>1</sup> The report of Technical Group on Social Stock Exchange is available at [https://www.sebi.gov.in/reports-and-statistics/reports/may-2021/technical-group-report-on-social-stock-exchange\\_50071.html](https://www.sebi.gov.in/reports-and-statistics/reports/may-2021/technical-group-report-on-social-stock-exchange_50071.html)

The report of Working Group on Social Stock Exchange is available at [https://www.sebi.gov.in/reports-and-statistics/reports/jun-2020/report-of-the-working-group-on-social-stock-exchange\\_46852.html](https://www.sebi.gov.in/reports-and-statistics/reports/jun-2020/report-of-the-working-group-on-social-stock-exchange_46852.html)

<sup>2</sup>The statistic pertaining the details of fund invested in AIFs are available at the SEBI Website <https://www.sebi.gov.in/statistics/1392982252002.html>

---

SEBI has in consideration to the report of the Working Group, vide Securities And Exchange Board Of India (Alternative Investment Funds) (Third Amendment) Regulations, 2022 (hereinafter referred to as “Amendment Regulation”) dated July 25, 2022 replaced the framework of the Social Venture Fund with the more mature and comprehensive construct of the Social Impact Fund.

## SOCIAL IMPACT FUND

Social Impact Fund is Category I Alternative Investment Fund, as was the case with SVF, which invests primarily in securities, units or partnership interest of social ventures or **securities of social enterprises** and which satisfies the social performance norms laid down by the fund.

## KEY CHANGES

### 1. Issue of Social Units<sup>3</sup>

SIFs are allowed to raise funds from foreign, non-resident Indians and Indian investor by way of issue of units or social units.

### 2. Corpus of a SIF

SEBI has vide Amendment Regulations relaxed the minimum amount of corpus required for each Scheme of a SIF in comparison to all other types of AIFs. A SIF required a corpus of not less than **five crore rupees** for each scheme. Other AIFs are required to have a corpus of at least twenty crore rupees.

---

<sup>3</sup> Social Units means units issued by a social impact fund or schemes of a social impact fund to investors who have agreed to receive only social returns or benefits and no financial returns against their contribution

---



### 3 Individual Investment

The Amendment Regulations to encourage investors in funding social welfare projects, has allowed Individual Investors to invest in SIFs which invests **only** in securities of Not-for-Profit Organizations (NPO) **or** of securities listed on Social Stock Exchange **with an amount not less than two lakh rupees**. This allows participation of additional investors who desire to contribute towards social impact. However, the minimum investment amount in case of for profit organisations, not listed on social stock exchange, continue to remain as Rupees one crore, which SEBI may consider to reduce so as to further incentivize SIF.

### 4 Avenues of Investment

Prior to the amendment, SVF could only invest the investable funds in units of Social Ventures. This had limited the reach and utilization of the investment funds since the ambit of social ventures only included not for profit entities such as trusts, societies or Section 8 companies under Companies Act, 2013. SEBI has vide Amendment Regulation, expanded the avenues of investment in case of SIF to include investment in **securities** of Social Enterprises thereby allowing investors to opt for investment in their choice of social welfare since the coverage of Social Enterprises is very wide thereby expanding the investment



---

landscape and opportunities for a SIF thereby enhancing the possibilities of actual social impact by potentially widening the investor base in such SIFs, especially after removal of the stipulation of muted returns/ restricted returns which was presumably one of the cardinal stumbling blocks concerning SVF. Social Enterprise means either a NPO or a For Profit Social Enterprise that meets the eligibility criteria specified in SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 and where such social enterprise shall establish primacy of its social intent

## **5 Utilization of Grants**

SIFs are permitted to accept grants from any person for an amount not less than ten lakh rupees subject to their utilization being in compliance with the SEBI AIF Regulations.

## **CONCLUSION**

It can clearly be understood that the change of Social Impact Fund introduced by SEBI is with an intention to provide an impetus to the social well-being by widening the ambit by opening up various avenues for social impact like bolstering the investor base as well as widening the target entities for investment by SIFs. The relaxation in parameters of requirement of funds as the corpus and minimum amount investable by individual investors, will allow small and medium investors to participate in funds having social impact. Furthermore, the SEBI has done away with the requirement of muted/ restricted returns in SIF, thereby making it relatively more appealing to the investors in comparison to SVF. The introduction of SIF has undoubtedly been a noble gesture. However, it would be a welcome and rather a very essential boost to SIF if the regulators could clarify certain other legal aspects concerning SIFs viz. applicability of FCRA provisions for grant by non-residents, treatment of grant to SIF as donation under Income Tax Act, 1961 and whether SIF would enable the companies to comply

---

---

their CSR compliances under the Companies Act, 2013. While it has not been that rare occasion that the noblest of steps have been mired in undesirable controversy due to either regulatory overlap or lack of regulatory clarity on a particular aspect. The aspect of social impact is already covered under the SEBI AIF Regulations, Companies Act, Income Tax Act and FCRA while each of them having its unique regulatory framework. In this backdrop, a regulatory homogeneity as regards social impact and social good can go a long way in introducing a true 'impact' vis-a-vis SIF and in turn avoid a slugfest in the regulatory quagmire.

**CONTRIBUTED BY:**

**Rajeev Nair, Associate Partner:** [rnair@rajaniassociates.net](mailto:rnair@rajaniassociates.net)

**S Shivganesh, Associate:** [sshivganesh@rajaniassociates.net](mailto:sshivganesh@rajaniassociates.net)

**DISCLAIMER:**

This Article is meant for information purposes only and does not constitute any legal advice by Rajani Associates or by the authors to the article. The contents of the Article cannot be intended to be comprehensive legal advice and would require re-evaluation based on the facts and circumstances. We cannot assume any legal liability for any errors or omissions. Should you have any queries on any aspect contained in this article, you may contact the author by way of an e-mail or write to us at [editorial@rajaniassociates.net](mailto:editorial@rajaniassociates.net)

---



---

## AREAS OF PRACTICE

| Capital Markets | Private Equity | Mergers and Acquisitions | Corporate Litigation & Arbitration | Projects & Project Finance |  
| Real Estate & Trust | Corporate & Commercial | Banking & Finance | Structuring | TMT | IPR | Employment

---

## DISCLAIMER

This update only contains a summary/ limited description of the topic dealt with hereinabove for general information purposes and should not be construed as a legal opinion or be relied upon in absence of specific legal advice. For further information or legal advice please feel free to contact us.

---

## Contact US



### Rajani Associates

simple solutions

**Address:** Krishna Chambers  
59 New Marine Lines  
Churchgate  
Mumbai 400020  
Maharashtra, India  
**Telephone:** (+91-22) 40961000  
**Facsimile:** (+91-22) 40961010  
**Email:** [dejure@rajaniassociates.net](mailto:dejure@rajaniassociates.net)  
**Website:** [www.rajaniassociates.net](http://www.rajaniassociates.net)

---