

Blended Finance in India

A decade of Blended Finance in India and what lies ahead

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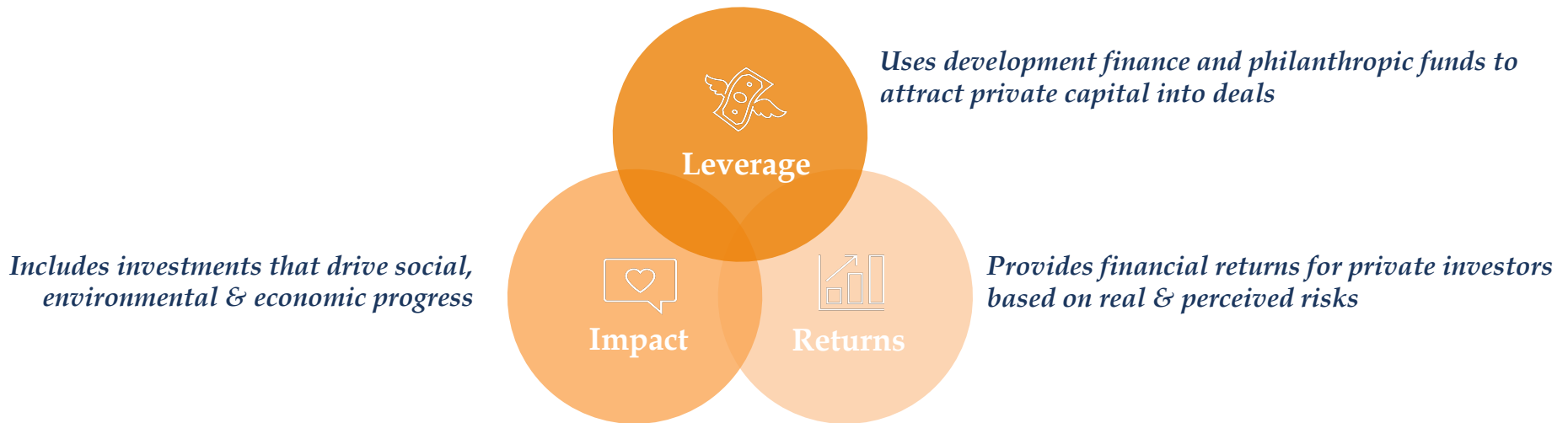
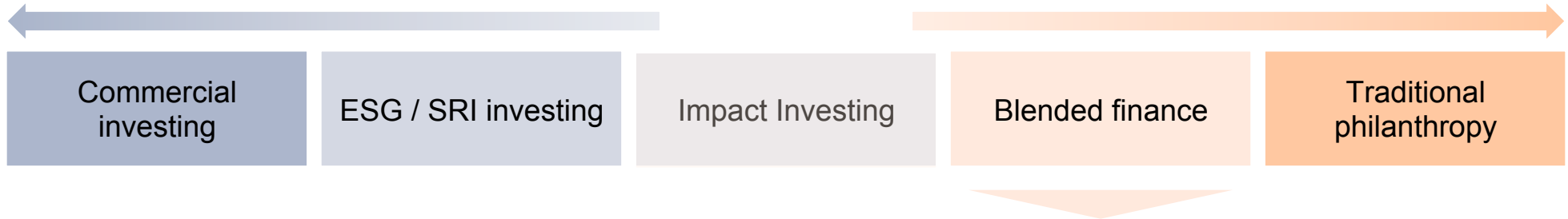


Dalberg

What is blended finance?

Focus on commercial returns

Focus on impact



Blended finance is a tool in the fund-raising team & funder's armory – a significant proportion of very important interventions, that are in the nature of public goods and might be perceived to be highly risky by private capital still need to be and should be served by grants

Blended finance encompasses a broad range of instruments



Concessional finance



Guarantees / Risk insurance



Results-based financing



Technical assistance grants

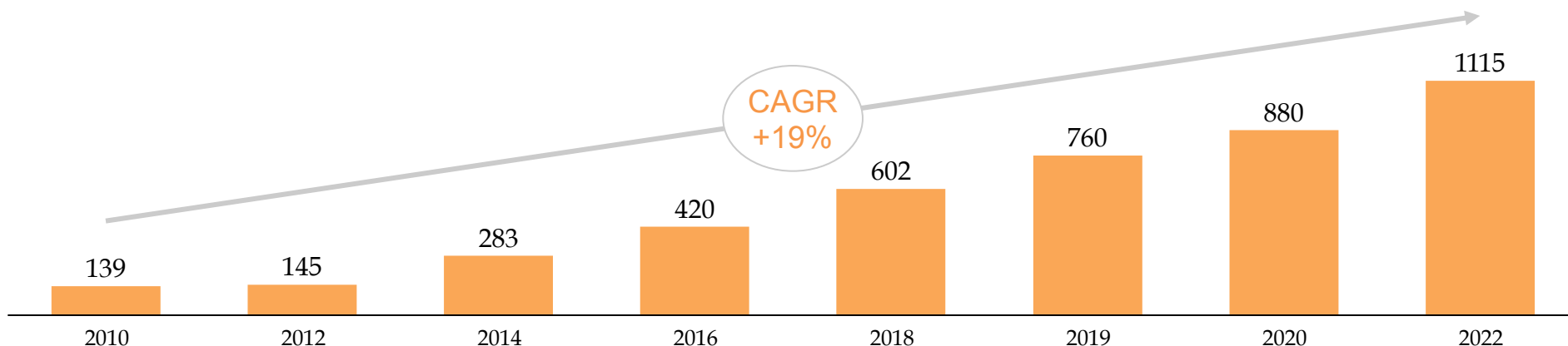
	<u>Concessional finance</u>	<u>Guarantees / Risk insurance</u>	<u>Results-based financing</u>	<u>Technical assistance grants</u>
Description	Development funder* provide funds on below-market terms to reduce risk or improve return for private investors	Development funder* by acting as a guarantor or by absorbing a portion of losses to mitigate risks	Development funder* only provides funding if impact targets are met , or provides an incentive for meeting impact targets	Development funder* provides support to strengthen investees and improve project viability
Examples	<ul style="list-style-type: none"> • Concessional debt • Concessional equity 	<ul style="list-style-type: none"> • Partial / full loan Guarantees • First loss capital 	<ul style="list-style-type: none"> • Development / social Impact bonds • Social success notes / interest subvention 	<ul style="list-style-type: none"> • Feasibility studies • Grants for setting up business processes / capacity building etc.

- **Simpler structures such as guarantees (1 in 2 transactions) and concessional & subordinate debt see substantial traction and higher transaction size**
- **Results-based financing transactions are typically smaller but focused on driving innovations and changing incentives - significant and expanding focus on mainstreaming**
- **TA and design grants - critical role in driving growth and innovation**

The Blended Finance market in India has been growing steadily

USD 5.6 Billion has been deployed across ~180 transactions between 2010-22

Annual investments 2010-22 (USD Mn)



Bilateral agencies / DFIs and international foundations are active development funders



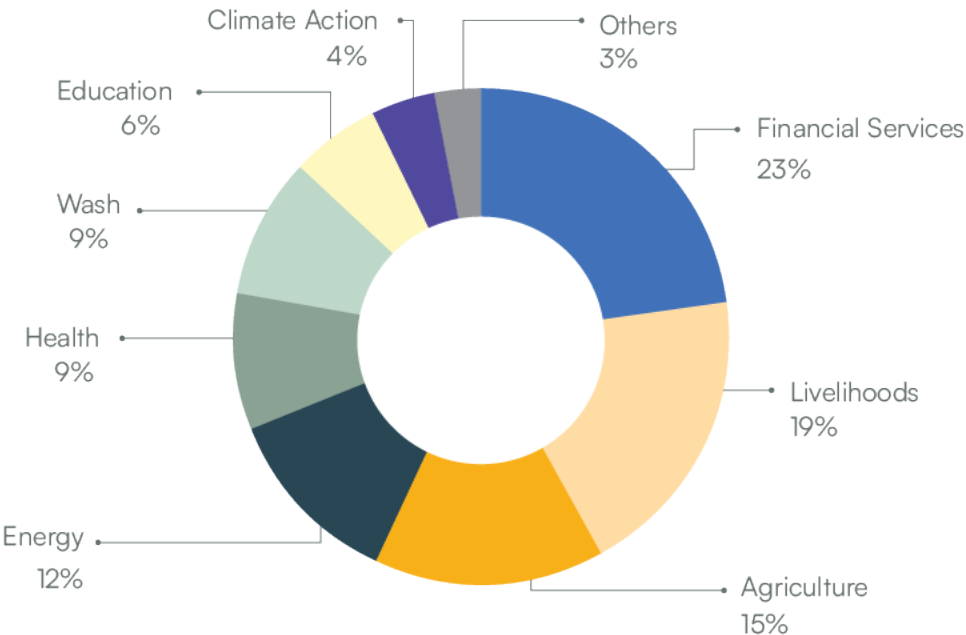
NBFCs and Banks are prominent private investors



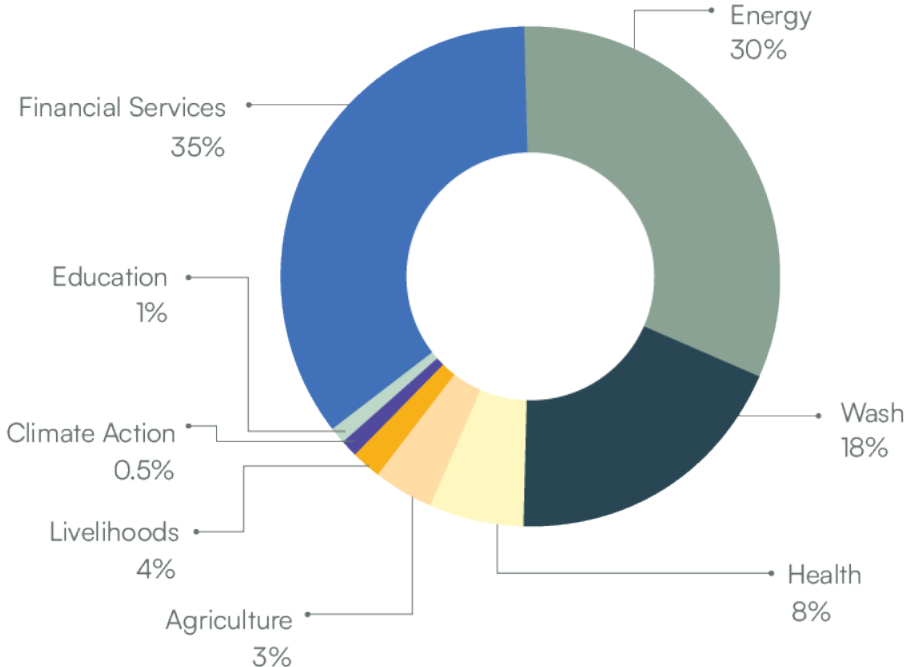
Blended Finance Market by Sector

Financial Services and Energy ~65% of market

Total Market Size by Sector (Volume)



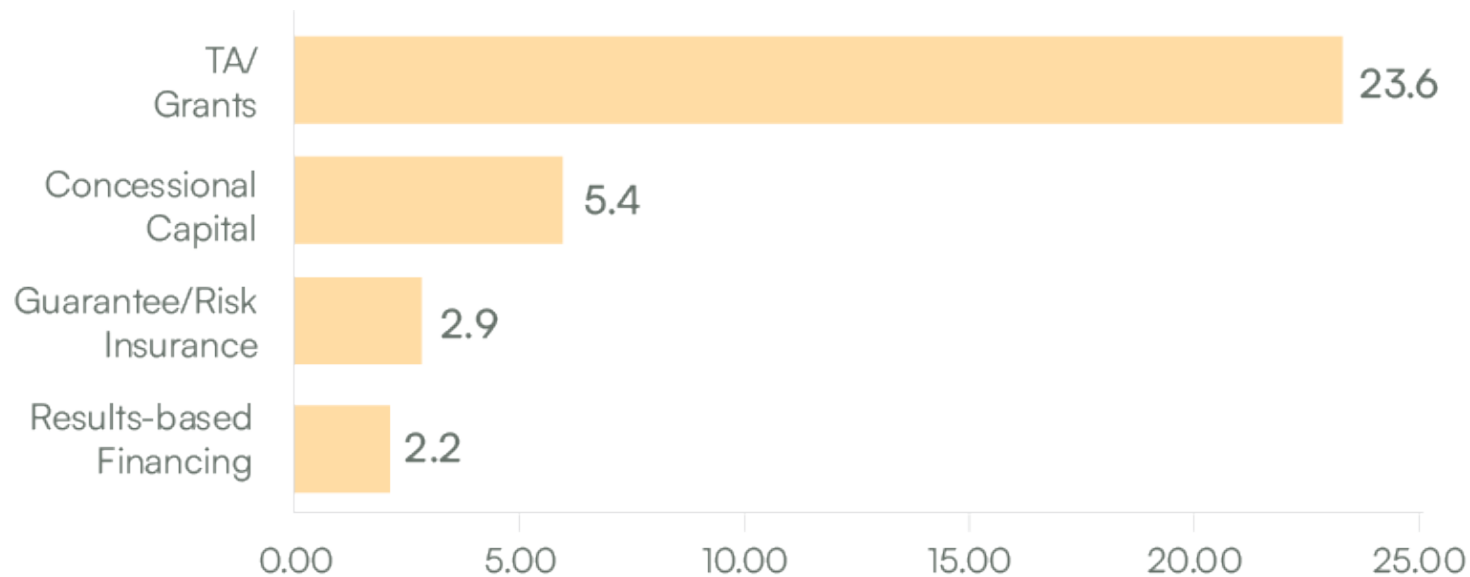
Total Market Size by Sector (Value)



As per industry survey, FS and Energy will continue to lead the market and Agriculture, Healthcare and Livelihoods will see increased traction. Education is leading the field in results-based financing

Learnings from early trends: Expansion of capital for important causes

Overall leverage of catalytic capital is 5.06x



- Concessional Capital structures mostly in Financial Services and Energy – mature business models allow for greatest efficiency and leverage
- Guarantees may have higher leverage in practice, however, most transactions have been structures with 30-50% guarantees
- **RBF instruments instrumental in creating evidence of what works on-ground, creating pathways for much greater leverage and scale**

Catalytic capital has been able to co-opt significant commercial capital

Focus instrument: Results-based financing can be particularly impactful in the right conditions



Improves effectiveness of development programmes



Improves the efficiency of government and donor spending



Creates evidence of what works

Results-based financing is most suitable when:



Outcomes are well-defined, measurable, attributable to the project and can be achieved in a reasonable timeline



Data is available (including baseline data) for outcomes measurement



Capacity of various consortium members to operate under a rigorous results-oriented framework



Problem is big enough to justify costs of designing, monitoring and managing a blended finance transaction



Interventions have been demonstrated, even if at only a pilot stage

Case Studies of Results-based financing (1/2)



India Skill Impact Bond

The **Skill Impact Bond** is India's first outcomes-based transaction focused on skilling and employment. It aims to strengthen India's technical and vocational education system and support 50,000 youth, 60% of whom will be women.

Investors: NSDC, MSDF
Outcome funders: CIFF, JSW, HSBC, Dubai Cares
Payment metric: Emphasis on placement & retention
Size: USD 14.4 Mn

Current Impact

18,000+
Impacted
Participants

70% Women enrollment rate
18 States included in the program



QEI Development Impact Bond

The **Quality Education India Development Impact Bond (QEI DIB)** is the largest education DIB in the world and supports Indian education providers in improving learning outcomes for primary school children.

Investors: UBS Optimus foundation
Outcome funders: MSDF
Payment metric: Increased literacy and numeracy
Size: USD 11 Mn

Current impact

200,000+
Impacted
Participants

50% Higher learning outcomes
2x Students achieving grade level proficiency
8% ROI for investor

Case Studies of Results-based financing (2/2)



Health-tech Social Success Note

The Social Success Note (SSN) will help innovative social enterprises scale and penetrate into regions with the highest need for healthcare services. Enterprises will receive loans from the investor. If they meet impact targets, the outcomes funder will reimburse a portion of the interest.

Investors: Caspian
Outcome funders: Samridh
Size: USD 4 Mn

Intended impact

15+ High impact health solutions to be scaled	8.3x Leverage on outcome funding
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Utkrisht Impact Bond

The Utkrisht Impact Bond was the first impact bond globally to focus on maternal and newborn healthcare. It aims to improve the quality of maternal care in private healthcare facilities in Rajasthan by helping 440 small healthcare organizations meet and adhere to new government quality standards.

Investors: UBS Optimus foundation
Outcome funders: USAID, MSD for Mothers
Payment metric: NABH and Manyata accreditation
Size: USD 9 Mn

Current impact

450,000+ Impacted Participants	400+ healthcare providers supported 8% IRR for investor
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Learnings from early trends: Deepening of impact for key developmental areas

Incentivization towards outcomes achievement has worked

- The Skill Impact Bond is tracking to outcomes (3m retention in job) achievement of 2-3x (conservatively) of what the ecosystem, including other grant models, were delivering
- Students under the Quality Education India impact bond learnt 2.5 times more than those in non-participating schools

Flexible funding, with simple outcomes focus, drives iteration and context-specific innovation

- The Educate Girls Impact Bond had only achieved 50% of its learning targets at the second year. Using strong data systems and performance management, it revised its program design and achieved 160% of its learning target by the end of the third year.

Implementing non-profits have stepped up to drive sustainable success

- Implementing partners that have been a part of outcomes-oriented structures have emphasized the transformation that they have gone through internally as well, supported by performance management
- This capacity building will make impact sustainable

Aspirations are moving higher, focus on mainstreaming & systems change

- As the proof of concept is proven, funders are now targeting larger scale of impact – looking to fund interventions (via RBFs) that transform systems and/or are amenable to large scale mainstreaming

Learnings from early trends: Early efforts have created a strong foundation for future expansion

Deeper understanding of what it takes (including costs) to achieve outcomes

Robust MEL and data generation, along with well-defined learning agendas, are helping distil an understanding of what it takes to achieve targeted outcomes

E.g., successful application of RBF in education has helped identify the cost of achieving learning outcomes in various contexts.

This will help improve ecosystem understanding, influence mainstream programs, and provide the infrastructure to scale RBFs, where needed



The market now has experience in creating legal and financial structures

As more structures are implemented, there is a greater understanding of the kinds of legal and financial structures, approaches and mechanisms that work

This has led to the creating of a core group of organizations, including non-profit actors, that now have a strong understanding of what it takes to set a transaction up for success, a key foundational element in facilitating future scale

The direction of travel is clear, with multiple new disruptors on the horizon

Social Stock Exchange

Regulatory frameworks such as SSE can help provide the necessary impetus by bringing more transparency in reporting, standardizing metrics and mobilising capital

Increasing focus from Government

“For encouraging important sunrise sectors such as climate action, deep-tech, digital economy, pharma and agri-tech, the government will promote thematic funds for blended finance”

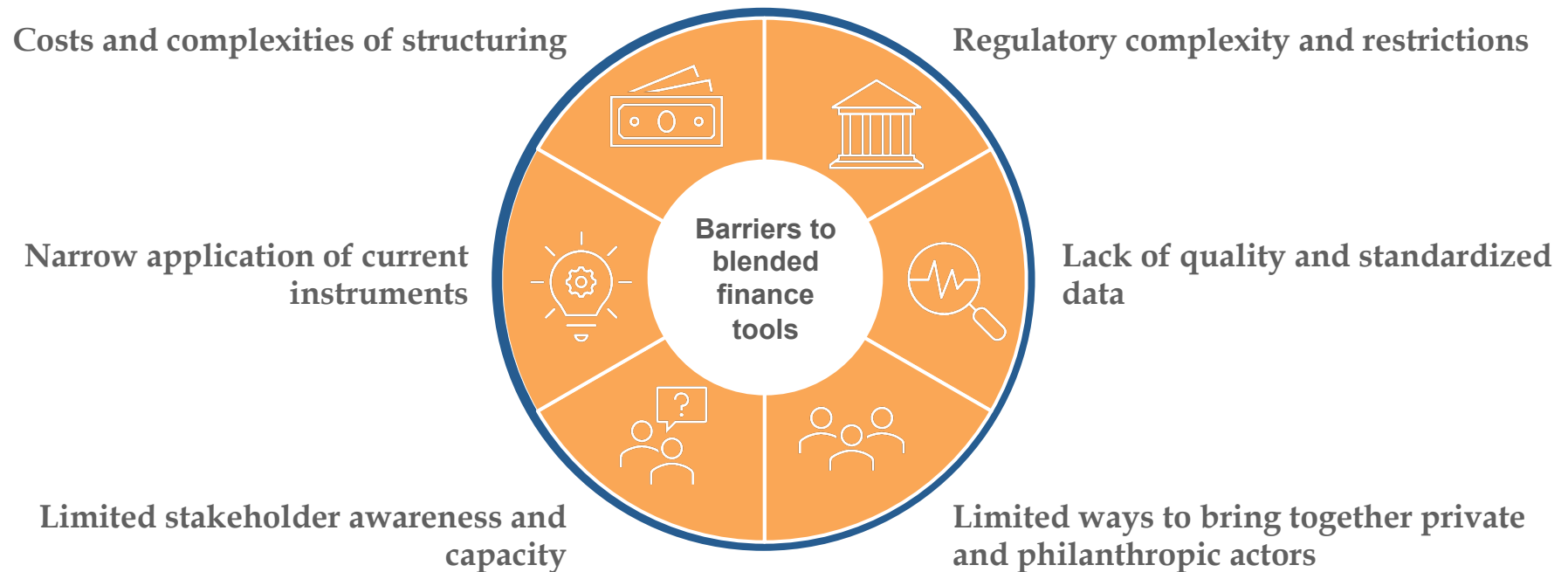
Rising interest of capital allocators/ owners

Mainstream FIs such as banks, large NBFCs, impact funds in addition to DFIs increasing looking at blending as approach – 80% of all capital mobilised till date in India

Bespoke structures to facilities

Sectors/ themes such as education, agriculture, healthcare, climate, WASH are ripe for scale and are moving away from bespoke structures to large scale facilities and funds

Learnings from early trends: Despite the significant progress, some challenges to scaling blended finance in India remain



The challenges are especially difficult for implementation partners / non-profits to address. While there are several on-ground initiatives that could benefit from catalyzing blended finance, organizations face several barriers to initiating such transactions

Learnings from early trends: Transaction implementation needs to evolve substantially

During the set-up stage

1

Clearly outline key decision points and criteria for moving forward – do not be afraid to walk away

2

Identify the suitability of the financial instrument early on – no need to use a blended instrument where a grant will suffice

3

Bring key stakeholders together early in the design process – ensure design is collaborative and leverages everyone's expertise

During implementation

1

Create strong performance contracts anchored to core outcomes – align on core outcomes and the MEL process

2

Plan ahead for “unknown knowns” – codify responses to events that could potentially disrupt the intervention

Unlocking blended finance in India will require a multi-pronged approach



Engagement with Government

- Setting up an institutional framework - SSE
- Advocacy toward legal and regulatory issues



Aiming for Scale

- Reduced cost of structuring
- Building templated models



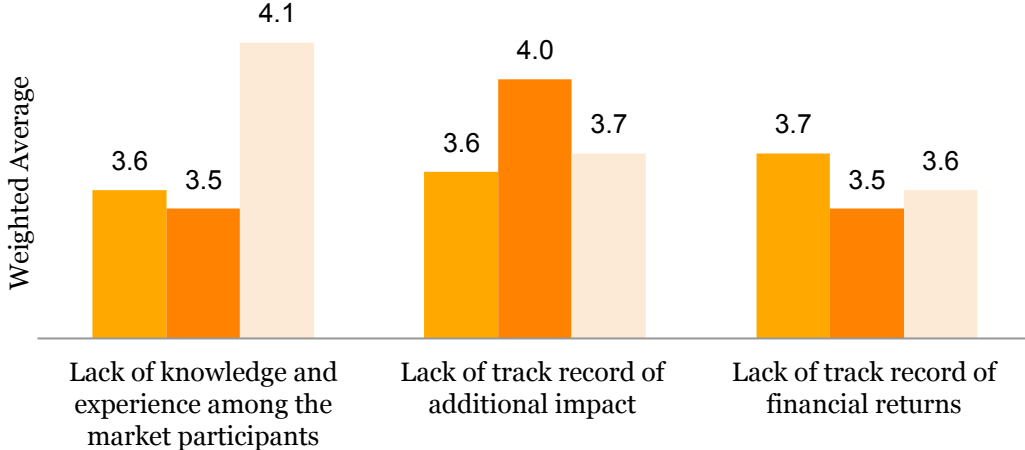
Building Awareness and Trust

- Data-driven and evidence based discussions - IBFC
- Transparency and documentation

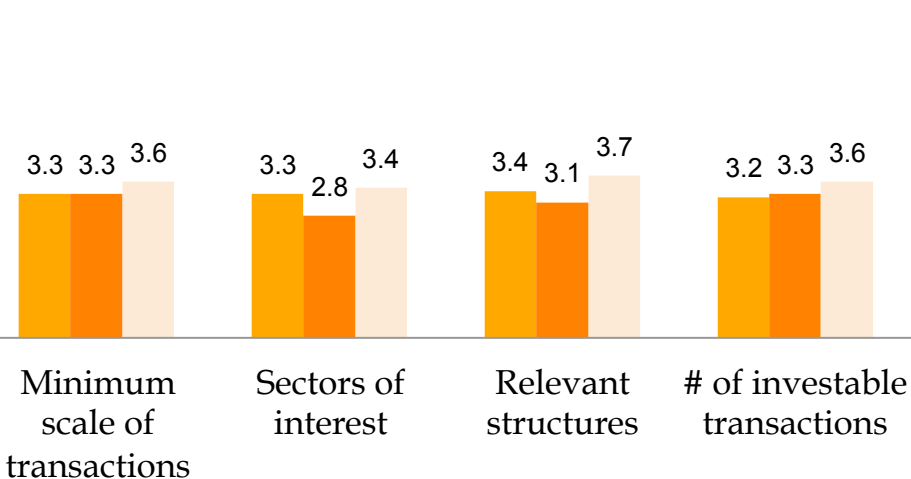
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Key Issues Faced by Stakeholders

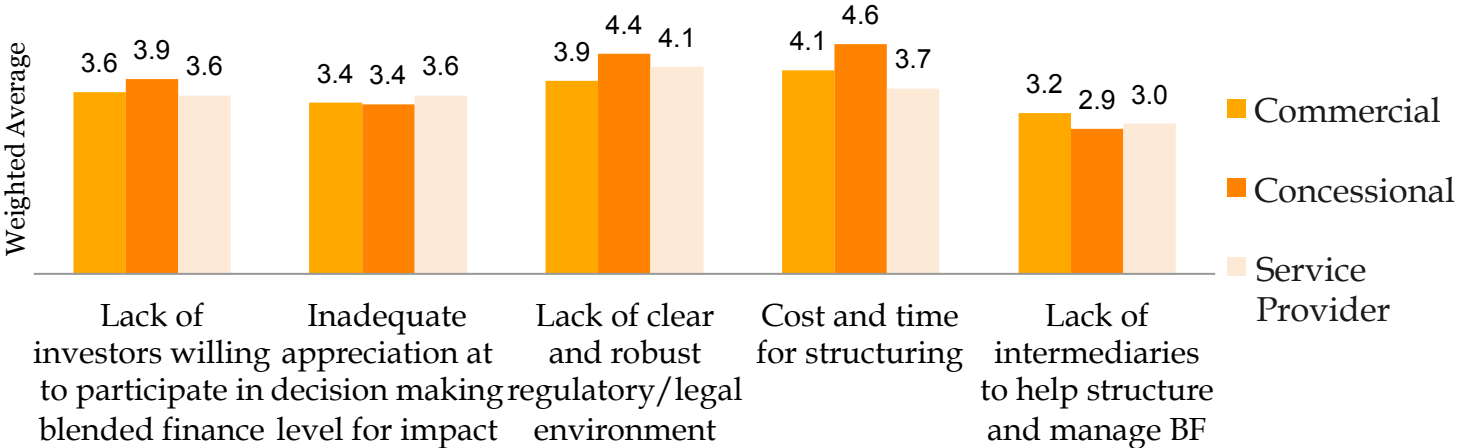
Challenges: Knowledge and Track Record



Challenges: Lack of Meaningful Pipeline

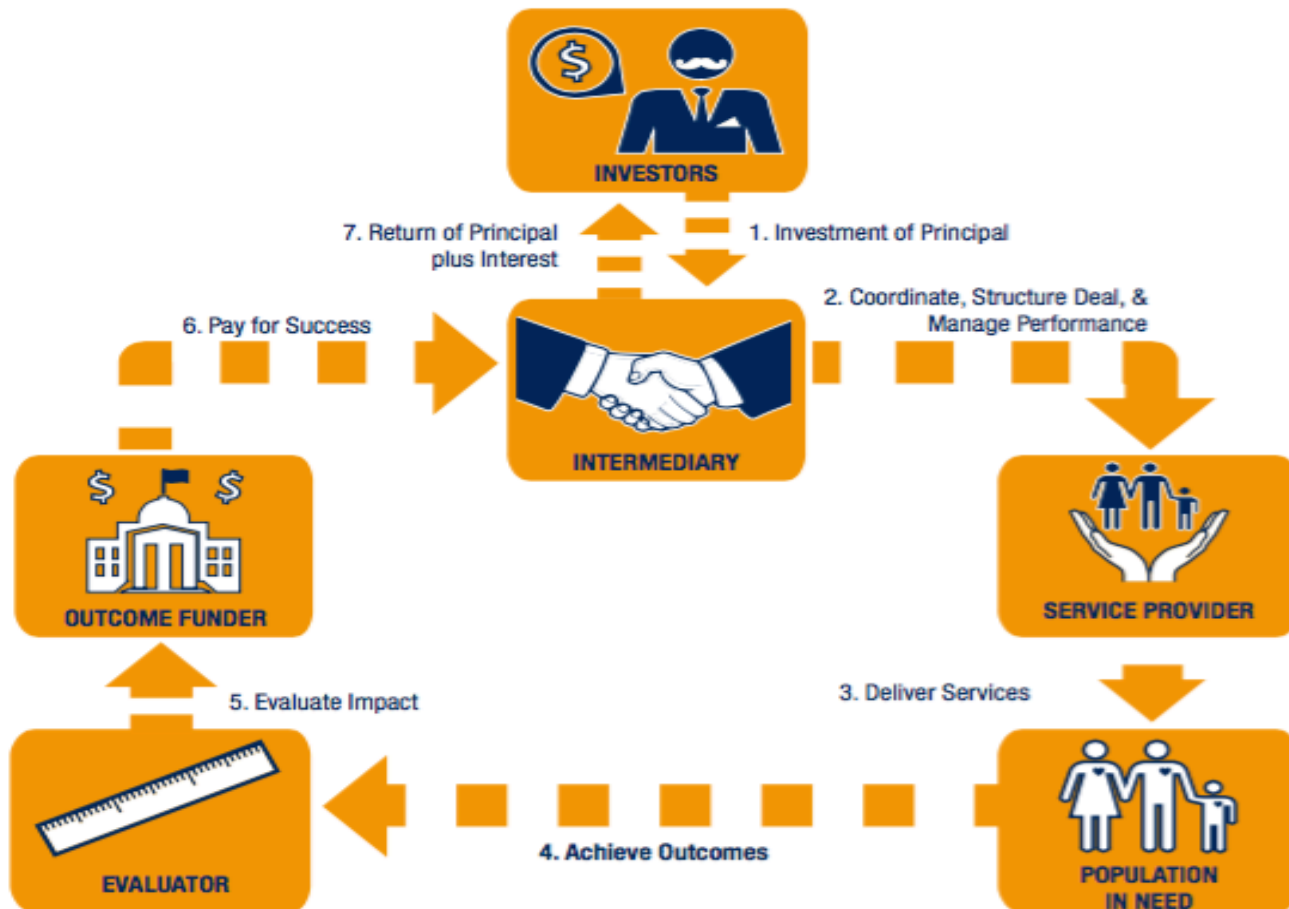


Challenges: Appetite and Capacity



Social/Development Impact Bonds

Impact Bonds⁽¹⁾ are a contract between 3 parties – (a) Investor (b) Service Provider (c) Outcome Funder

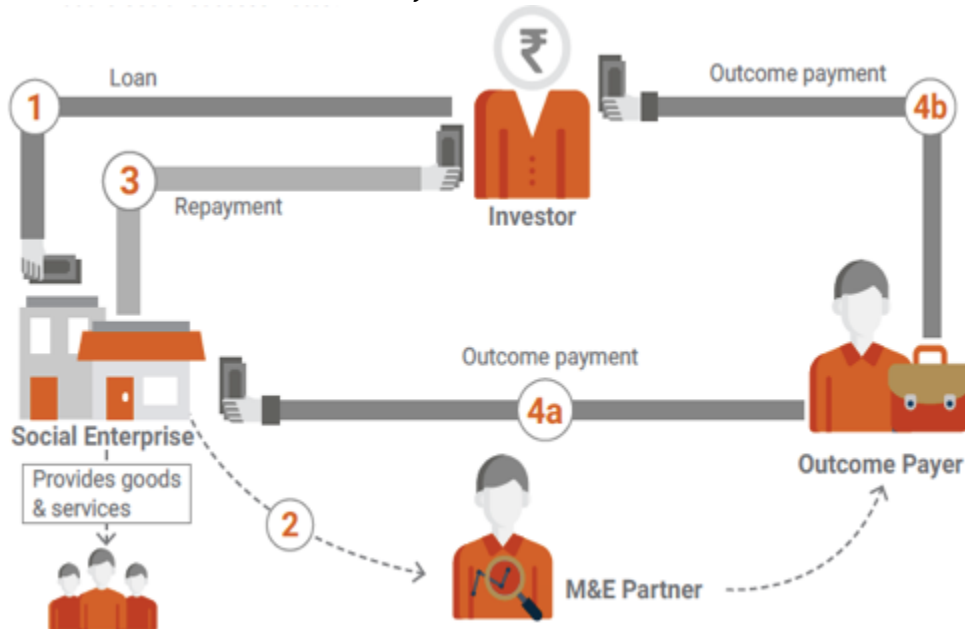


- The investor (aka **Risk Investor**) gives the Service Provider a working capital grant (Principal) to achieve pre-determined social outcomes.
- If the **Service Provider** achieves these outcomes the investor receives the principal amount back with an interest payment, else the investor loses the Principal (akin to grant)
- The outcome targets and the interest payment are determined upfront, at the time of contract signing, based on existing baseline data & negotiations
- The **Outcome Funder** only pays on the achievement of outcomes which are measured by a **third party independent evaluator** periodically (usually annually)

Impact Linked Debt

Social Success Notes

A loan given to a for-profit social enterprise where interest subvention is offered by philanthropic capital if pre-determined impact objectives are met at the end of the intervention



Soft Loans with Guarantees

A loan given to a for-profit social enterprise which is back-stopped by philanthropic capital; outcome achievement is incentivised through performance-linked payments

