

NAVIGATING OUTCOMES-BASED FINANCING IN INDIA: PERCEPTIONS OF THE NOT-FOR-PROFITS

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EXECUTIVE SUMMARY

Unpacking Outcomes-Based Financing (OBF)

OBF is an innovative approach to finance **social sector organisations** that redirects the focus from funding activities or inputs to funding based on the achievement of predefined, measurable and verifiable outcomes.



Rationale of this Study

In the realm of social sector funding, particularly outcomes-based financing, discussions often revolve around donor-driven perspectives, like focus on the efficiency of funding, accountability and transparency. While all this stands true as motivation to transition to OBF models, what is often overlooked are the perspectives of not-for-profit organisations (NPOs) themselves – the promise it holds for them, its implications on their everyday work and operations, and priority areas for them for deliberation at the ecosystem level.

Gaining insights into the perspectives of NPOs is essential for identifying which aspects of OBF resonate with them, what support they need, and how their concerns can be addressed to foster a robust OBF market in India.

Furthermore, this empowers NPOs to participate in the evolving OBF dialogue, marking progress towards their equal representation as partners in these discussions.

Research Objectives



To examine not-for-profits' perceptions on OBF – its benefits, risks to organisations and challenges facing the development of the OBF market in India.



To assess how factors like annual budget, number of employees and sectors of operation influence perceptions of NPOs.

Survey Details and Sample Characteristics

The research used a quantitative survey among **71 NPOs in India**, which captured data on their organisational profile and their perceptions regarding OBF, encompassing its benefits, risks and challenges. The sample represents a diverse array of not-for-profits, with the majority of them holding certifications such as **80G, 12A, CSR 1 and FCRA**. Notably, organisations of operating budget less than INR 2 crores dominate the sample. Education and livelihood emerge as the most prominent sectors of operation. The sample encompasses an equitable distribution of organisations with and without fundraising teams. A majority of the NPOs conduct impact assessments and undertake regular Monitoring, Evaluation and Learning (MEL) of their project interventions.

Key Insights

- NPOs have a positive outlook towards OBF and have expressed willingness to explore OBF for their funding needs. They view OBF not merely as a tool to diversify funding opportunities, but as a means to drive accountability, transparency, and evidence-based decision-making.
- Despite the optimism, NPOs are mindful of the inherent risks associated with the OBF model. Chief among these concerns are the financial risks of “inadequate working capital” required to participate in an OBF and the possibility of “funding being stopped midway in case outcomes are not achieved”. These concerns are shared across NPOs, regardless of their annual budget. This reflects the misconceptions harboured by the NPOs, since OBF models, such as Development Impact Bonds (DIBs), are designed to address these issues. In a DIB, a risk investor provides the initial working capital, and the outcome funder reimburses the risk investor upon achieving the outcomes, thus shifting the financial risk away from the NPO. Therefore, it is essential to raise awareness about OBF instruments and dispel misconceptions, to enhance NPOs’ understanding of and engagement with these mechanisms.
- NPOs identify the lack of impact standardisation as a significant obstacle in the advancement of the OBF market in India. However, the contours of impact standardisation remain undefined at present. The interpretation of standardising impact may vary among stakeholders, ranging from establishing a shared understanding of impact as a concept, to developing rigorous standardised frameworks and metrics.
- The annual budget of an organisation emerges as an important determinant that influences NPOs’ perceptions of OBFs. NPOs with relatively larger annual budgets tend to prioritise the benefits of OBF and give greater significance to the market-level challenges of OBF. However, there is no specific pattern in perceived risks of OBF to organisations across annual budget sizes.
- NPOs with an annual budget of INR 10-<50 crores give the highest importance to the benefits and risks of OBF the most as compared to other annual budget categories. This is important, because NPOs in this budget range may be looking for additional finances to scale their interventions, and may have the necessary absorptive capacity required for OBF. They are at a pivotal stage in their project interventions and are exploring ways to receive funding in larger ticket sizes. They see OBF as a means to facilitate these efforts. However, they also emphasise the need for providing capacity-building support to address concerns related to the risks of OBF, presenting an opportunity within organisations of this budget range to experiment with OBF.

OUTC

NPOs see **OBF as a path to accountability and transparency**



Raising awareness can dispel NPOs’ concerns of **inadequate working capital and interrupted funding**



Lack of impact standardisation is a key hurdle in OBF’s market advancement in India



Annual budget of an NPO is a key determinant that influences NPOs’ perceptions of OBFs



- NPOs with annual budgets of INR 2 to <10 crores perceive a notable value addition from OBF to their organisations, but do not prioritise benefits as highly. Instead, their top concern revolves around the potential neglect of long-term outcomes and organisational development in OBF models. This concern may stem from the ongoing establishment of systems and processes within their organisations. Therefore, they seem to prioritise organisational growth and development to establish stronger foundations for their organisations before scaling up through a financing model which in itself demands well-established systems and processes for reporting, monitoring and evaluation (M&E), performance management, and risk management among others.
- There are no consistent patterns in NPOs' perceptions based on the number of employees. Nonetheless, as workforce capacity grows, NPOs tend to perceive certain benefits of OBF, including "diversification of funding opportunities", "enhanced programmatic outcomes", and "enabling innovation and flexibility in service delivery", more significantly. Moreover, larger NPOs consistently see the overall benefits and challenges of OBF as more significant compared to others. The findings also underscore significant differences in perceptions across micro (1-9 employees) and small (10-19 employees) NPOs.
- Finally, based on the sectors of operation, organisations within the "education and livelihood" sector tend to place higher significance on the value addition of OBF compared to those operating outside these sectors. Interestingly, the majority of OBF transactions in India have happened in the education and livelihood sectors. However, perceptions regarding the benefits, risks, and challenges of OBF do not vary significantly across sectors, albeit with a few exceptions. Organisations outside the education and livelihood sectors assign more importance to the benefit of "flexibility in fund usage" and to the risk of "overemphasis on short-term outcomes, neglect of long-term impact, and organisational development". These perceptions are found to be driven largely by the sector-specific differences, with some influences from organisational practices. These practices may include presence of fundraising practices, impact assessment approaches and frequency of conducting MEL.

NPOs in the INR 10<50 crore budget see **OBF as key to scaling but need capacity-building support**



OUTCOMES-BASED FINANCING

NPOs with INR 2<10 crore budget are concerned about the **potential neglect of long-term outcomes and organisational development**



There are **no consistent patterns** in NPOs' perceptions **based on the number of employees**, with a few exceptions



NPOs in education and livelihood sectors see **higher value in OBF**



Perceptions on **benefits, risks, and challenges do not vary significantly across sectors**, albeit with a few exceptions



ABOUT THE REPORT

In recent years, outcomes-based financing (OBF) has emerged as a promising approach to funding the social sector in India. Globally, 23 impact bonds have been structured, amounting to a total deal volume of \$181 million.¹ In India, five impact bonds have been successfully implemented, collectively totalling \$29 million.² This shift towards outcomes is also evident in government initiatives. For example, in the Skill Impact Bond, National Skill Development Corporation (NSDC), which is a quasi-government entity, participated as a risk investor.³ In another example, the Pimpri Chinchwad Municipal Corporation (PCMC) has signed an MoU with UNDP India to create India's first Social Impact Bond (SIB) in the health sector.⁴

The discussions on OBF often revolve around donor-driven perspectives, like focus on efficiency of funding, accountability and transparency. While all this stands true as motivation to transition to OBF models, what is often overlooked is the perspective of not-for-profit organisations (NPOs) themselves – the promise OBF holds for them, its implications on their everyday work and operations, and priority areas for deliberation at the ecosystem level.

This report aims to bridge this knowledge gap and understand perceptions of NPOs regarding OBF's benefits, risks to organisations and market-level challenges. Understanding their perceptions is crucial to identifying aspects of OBF that resonate with them, determining the support they require, and devising strategies to address their concerns. Additionally, this empowers NPOs to actively participate in the emerging OBF discourse and is a step forward towards ensuring their representation as equal partners in the discussions. Towards this, the Centre for Innovative Finance and Social Impact (CIFSI) at the Indian School of Development Management (ISDM), in collaboration with Desai & Associates (D&A), Asha Impact, and ImpactVerse, has initiated a study. This research report stands as a key output of Parinaam 2023, a collaborative multi-stakeholder platform working on tri-sectoral collaboration between markets, government and civil society to enable finance for sustainable development.

Objectives

- To examine not-for-profits' perceptions of OBF – its benefits, risks to organisations and challenges facing the development of the OBF market in India.
- To assess how factors like annual budget, number of employees and sectors of operation influence perceptions of NPOs.

Survey Details

The research uses a quantitative survey to capture data from NPOs in India on organisational profiles, including available certifications, sectoral operations, organisation size based on annual budget, largest project size, and number of employees, and organisational practices, including the presence of a fundraising team, impact assessment and MEL practices among others. Additionally, the survey sought responses on perceived benefits, risks to organisations and challenges associated with the development of the OBF market in India. The survey obtained responses from 71 NPOs, with the organisational level being the unit of analysis. Detailed research methodology and the survey questionnaire are given in Appendix 1 and Appendix 2 respectively.

1. Convergence Market Data. Summary Analysis – Historical Deals Database. Convergence. Accessible at: <https://www.convergence.finance/dashboard>.

2. Ibid.

3. NSDC India. India's Skill Impact Bond for sustained employment of youth. Accessible at: <https://nsdcindia.org/sib>

4. Indian Express (2021). UNDP and PCMC join hands to improve healthcare service, process to recruit investors begins. Accessible at: <https://indianexpress.com/article/cities/pune/undp-and-pcmc-join-hands-to-improve-healthcare-service-process-to-recruit-investors-begins-7557745/>

UNDERSTANDING OBF

OBF is an innovative approach to finance social sector organisations, which redirects the focus from funding activities or inputs to funding based on the achievement of predefined, measurable and verifiable outcomes. This approach incentivises performance by linking payment to the delivery of desired outcomes.

What is **Outcomes-Based Financing**?

Traditional Financing



I want to fund an input/activity



Funds transferred



Implementation partners deliver the program

Outcomes-Based Financing



I want to fund outcomes



Implementation partners propose measurable outcomes



Funding given for achievement of pre-agreed outcomes

Advantages of OBF

Transfer of risk from not-for-profits to investors who provide upfront capital



Flexibility to innovate and adapt implementation of project intervention



Support for performance management, innovation and data-based decision-making



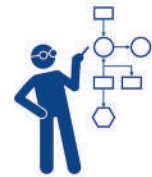
Strong signalling of expertise and credibility to the wider sector, leading to high visibility of the non-profits



Outcomes-based financing requires clear goals, leading to **accountability and transparency**



Organisations **develop M&E frameworks** to track progress, enhance performance, and identify improvement areas



Limitations of OBF

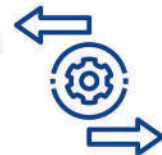
An outcomes-based model may push organisations to **prioritise short-term, measurable results over long-term impact**, neglecting less quantifiable aspects



Significant resources may be required to develop and maintain the systems needed for tracking and reporting outcomes



Implementing an OBF model requires significant time and financial investment, **diverting NPO resources from core activities to administration**



Capacity-building may be required for NPOs to effectively absorb and utilise funds received through OBF instruments



There may be **potential regulatory hurdles within FCRA, CSR, etc.** Navigating these regulations to implement OBF can be a challenge



Impact Bonds Implemented in India

Educate Girls DIB (2015-18)

Sources of Capital:

UBS Optimus Foundation, CIFF

Other Stakeholders:

Educate Girls, Instiglio (performance manager), IDinsight (evaluator)

Risk Capital:

0.27 (USD mn)

Sector:

Education

Outcome Funding:

0.42 (USD mn)

Status:

Complete

Utkrish Impact Bond (2017-20)

Sources of Capital:

UBS Optimus Foundation, MSD for Mothers, USAID

Other Stakeholders:

HLFPPT (Hindustan Latex Family Planning Promotion Trust)/PSI (Population Services International), Palladium, Mathematica Policy Research (independent evaluator), Social Finance UK, Reed Smith, Phoenix Legal

Risk Capital:

2.9 (USD mn)

Sector:

Health

Outcome Funding:

8 (USD mn)

Status:

Complete

Skilling Impact Bond (2021-25)

Sources of Capital:

Dell Foundation, National Skill Development Corporation, CIFF, HSBC, JSW Foundation, Dubai Cares

Other Stakeholders:

British Asian Trust (BAT), USAID, Dalberg Advisors, Oxford Policy Management

Risk Capital

4 (USD mn)

Sector:

Livelihood

Outcome Funding:

17.7 (USD mn)

Status:

Ongoing

Haryana Early Literacy Bond (2019-22)

Sources of Capital:

Central Square Foundation (CSF), IndusInd Bank, State Bank of India

Other stakeholders: Language Learning Foundation, HSSPP (Haryana School Shiksha Pariyojna Parishad), Social Finance India Education Outcomes (evaluator)

Risk Capital:

0.45 (USD mn)

Sector:

Education

Outcome Funding:

2.2 (USD mn)

Status:

Complete

Quality Education India (2018-22)

Sources of Capital:

UBS Optimus Foundation

Other Stakeholders:

Gyan Shala, Kaivalya Education Foundation, Society for All Round Development, Pratham Infotech Foundation, Dalberg (performance manager), Grey Matters Capital (evaluator), Go Labs, Brooking (Research)

Risk Capital

3 (USD mn)

Sector:

Education

Outcome Funding:

9.2 (USD mn)

Status:

Complete

NPOs IN FOCUS: UNVEILING TRENDS IN THE SAMPLE

Legal Entity and Certifications

The sample comprises NPOs either registered as a cooperative society (39.4%), or a section 8 company (33.8%), or a trust (32.4%), and a few holding 501(c)(3) registration (5.6%)⁵. Most organisations have certifications including 80G and 12A certifications (97%), with significant proportions holding CSR-1 (93%), and FCRA certification (62%).

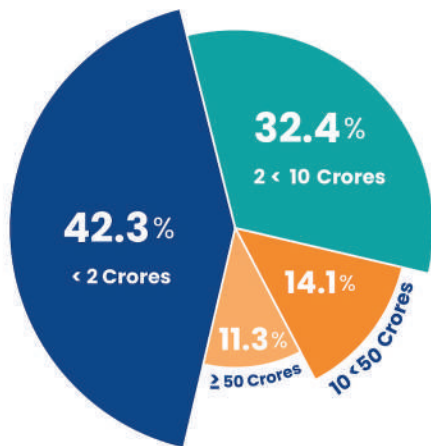


Organisation Size

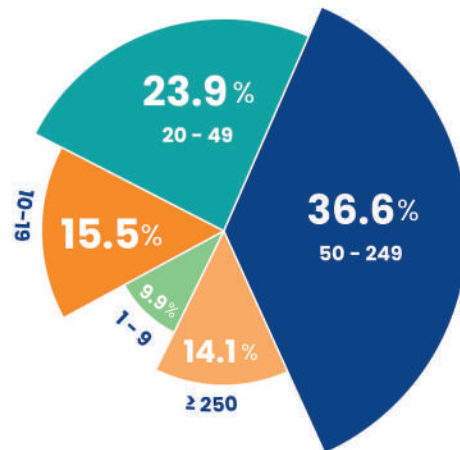
- Relatively smaller budget size NPOs dominate the sample.
- Relatively equitable distribution of NPOs based on the number of employees, with 50% of the NPOs having fewer than 50 employees, and the other 50% having more than 50 employees.
- There is a trend of organisations aligning their largest project sizes with their annual budget and number of employees. As the size of the annual budget and number of employees increases, the size of the largest projects they undertake also increases. Essentially, this trend signifies a strategic approach among NPOs, wherein they prioritise investing their resources into a select number of significant projects, rather than dispersing resources across multiple smaller initiatives.

⁵. Section 501(c)(3) is the portion of the US Internal Revenue Code that allows for federal tax exemption of nonprofit organisations that meet the code's requirements.

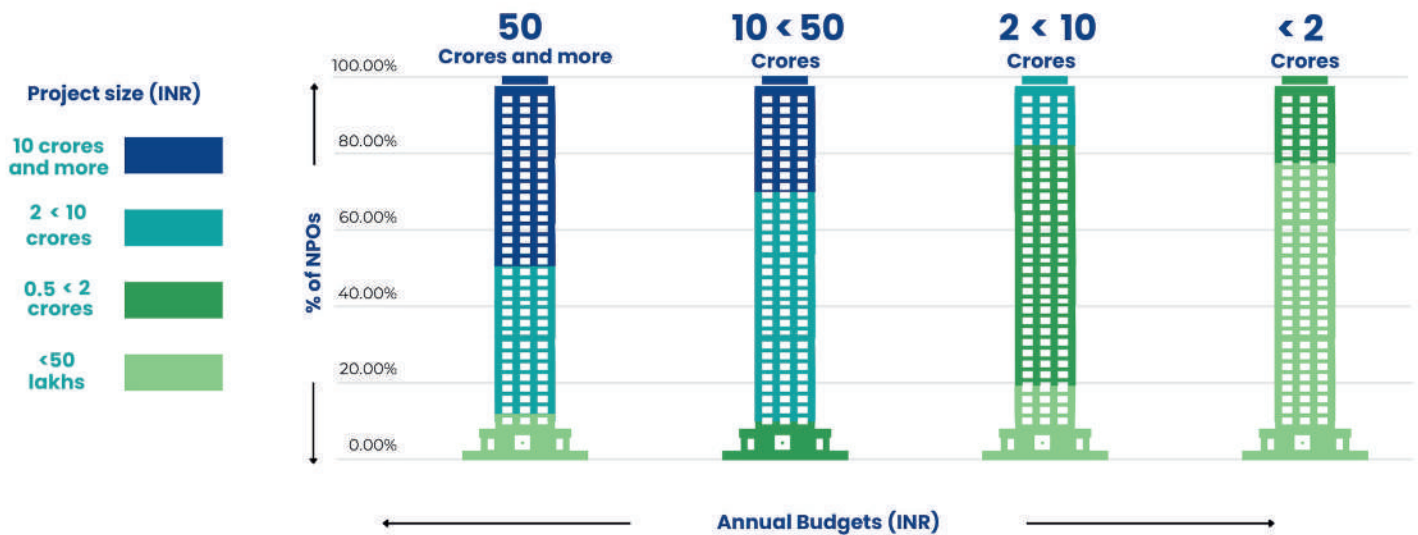
NPOs by annual budget (INR)



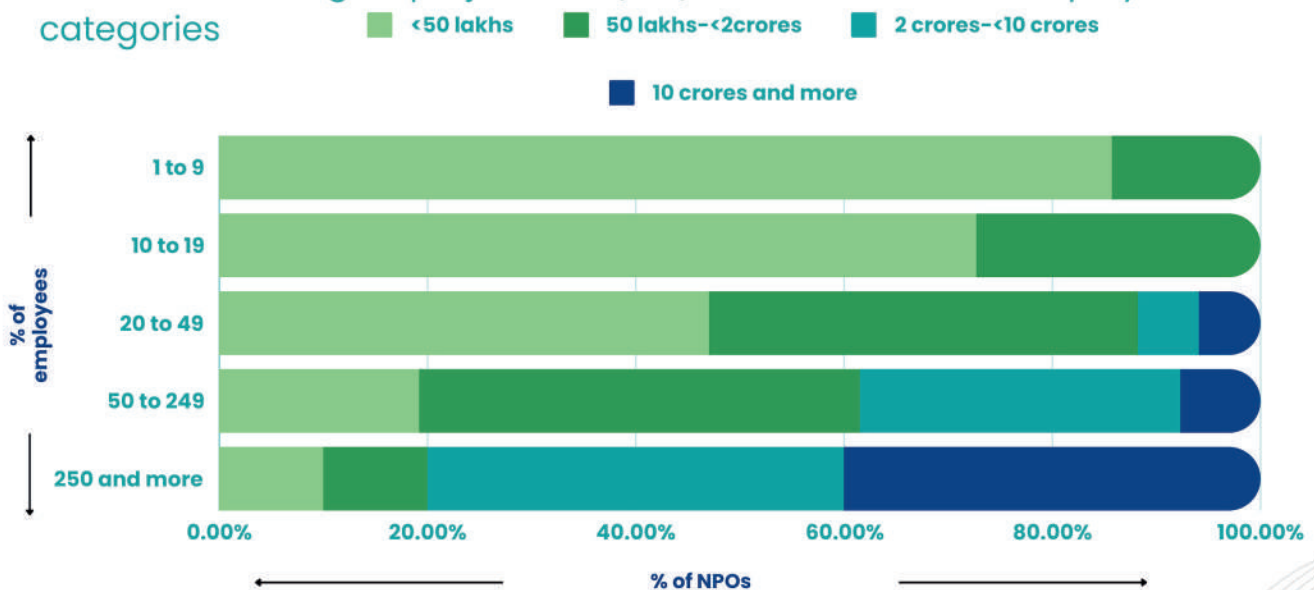
NPOs by number of employees



Distribution of largest project size across annual budget categories



Distribution of largest project size (INR) across number of employees categories



Source: Survey Data

Organisational Practices

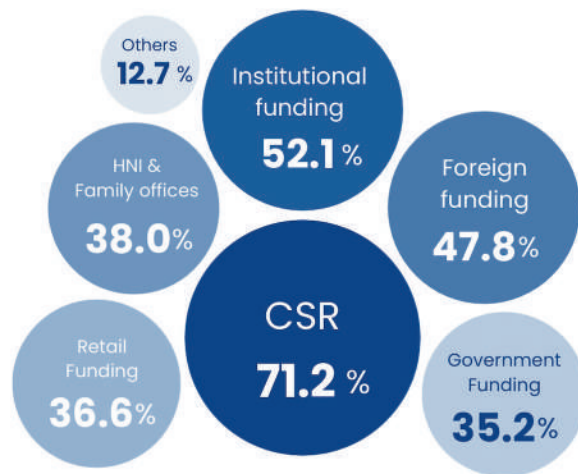
- The sample shows a balanced mix of NPOs with and without fundraising teams.
- NPOs continue to use a mix of funding, with CSR funding being the most prominent form of funding.
- 90% of the NPOs undertake impact evaluation in one form or another.
- 85% of the NPOs conduct regular MEL ranging from monthly to annually.

NPOs have a fundraising team

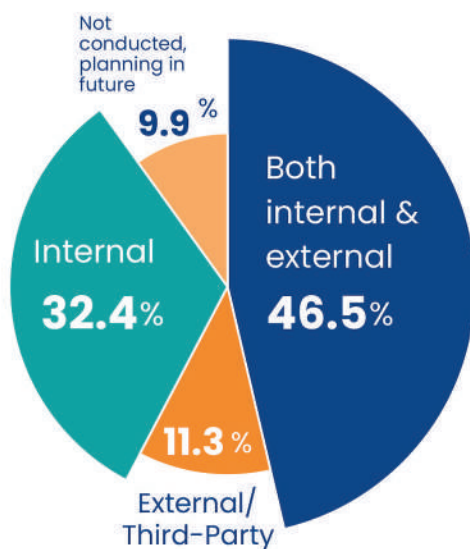
48%



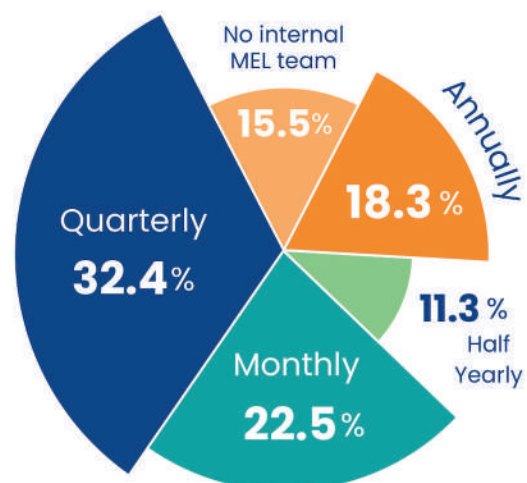
NPOs based on key sources of funding



NPOs based on impact evaluation practices



NPOs based on frequency of conducting MEL

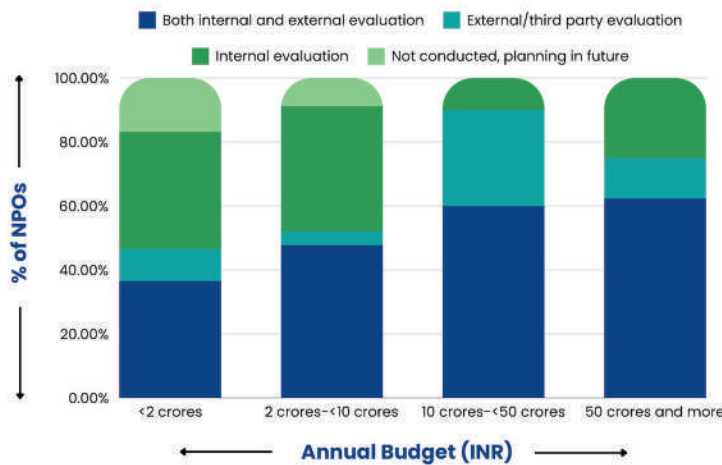
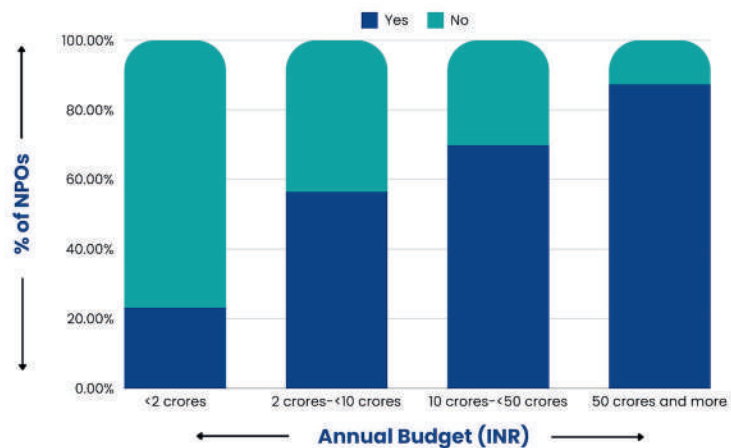


Source: Survey Data

Organisational Practices Based on Annual Budget

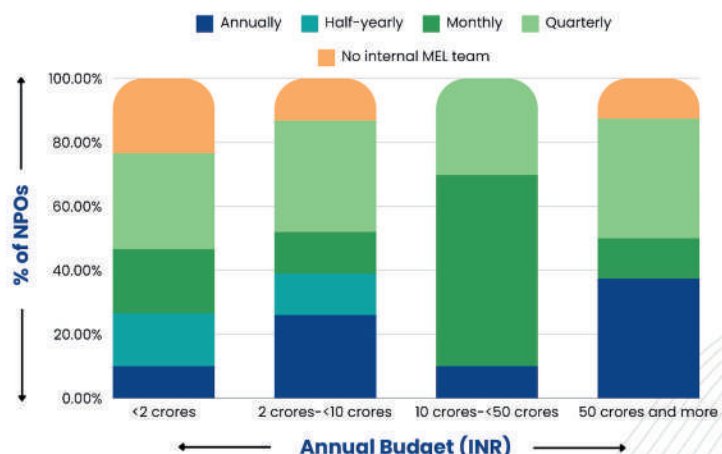
- NPOs lacking a fundraising team tend to be smaller-budget organisations compared to those with a fundraising team.
- NPOs not conducting impact evaluations are predominantly those with budgets of INR <2 crores, followed by INR 2-<10 crores. However, the majority of NPOs within these budget categories conduct impact evaluations internally, or use a combination of internal and external evaluations.
- Similarly, NPOs lacking an internal MEL team are predominantly those with budgets of INR <2 crores, followed by INR 2-<10 crores.

Distribution of presence of fundraising team based on annual budget



Distribution of impact evaluation practices across annual budget categories

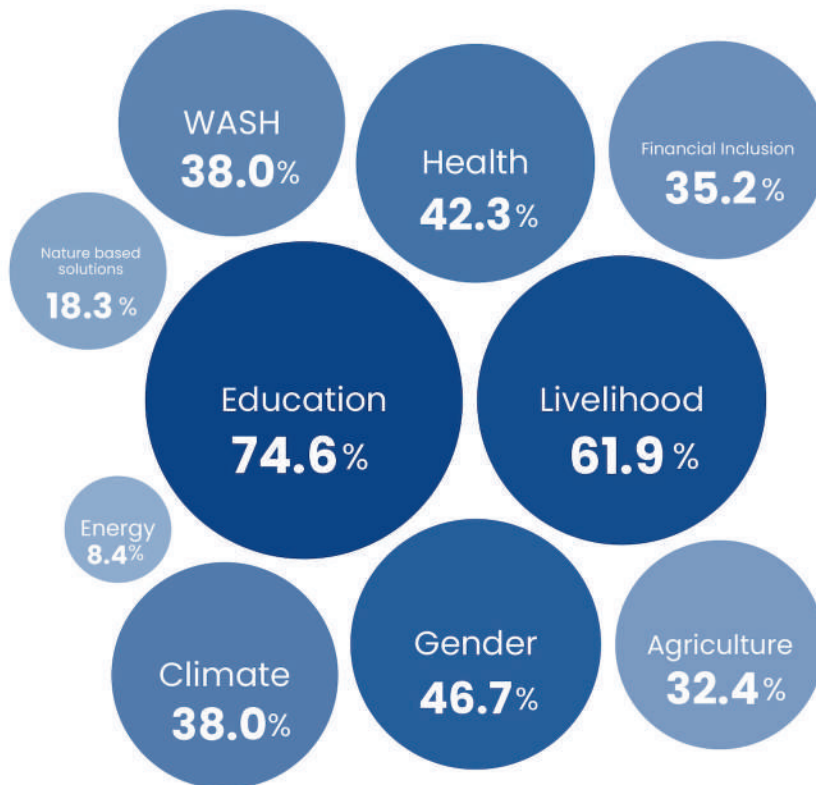
Distribution of MEL frequency across annual budget categories



Source: Survey Data

Sectors of Operations

- Education and Livelihood emerge as the most prominent sectors of operation.
- NPOs in "Education and Livelihood" and "Other sectors" tend to have relatively smaller budgets of <INR 10 crores.
- NPOs across sectors have similar practices with respect to impact evaluation. However, in comparison to the "Others" category, a larger share of organisations in the "Education and Livelihood" sector have not conducted impact evaluation yet.



Source: Survey Data

The perceptions of NPOs were collected using a Likert scale



NPOs' PERCEPTIONS OF OBF

Positive outlook towards OBF

NPOs showed interest in participation

83%



What drives NPOs to possibly undertake OBF in future

Accountability



Evidence-based decision-making



Transparency



Financial concerns

Misconception on financial risks remain prominent; there is a need for education and awareness.

How can I achieve outcome without funding?

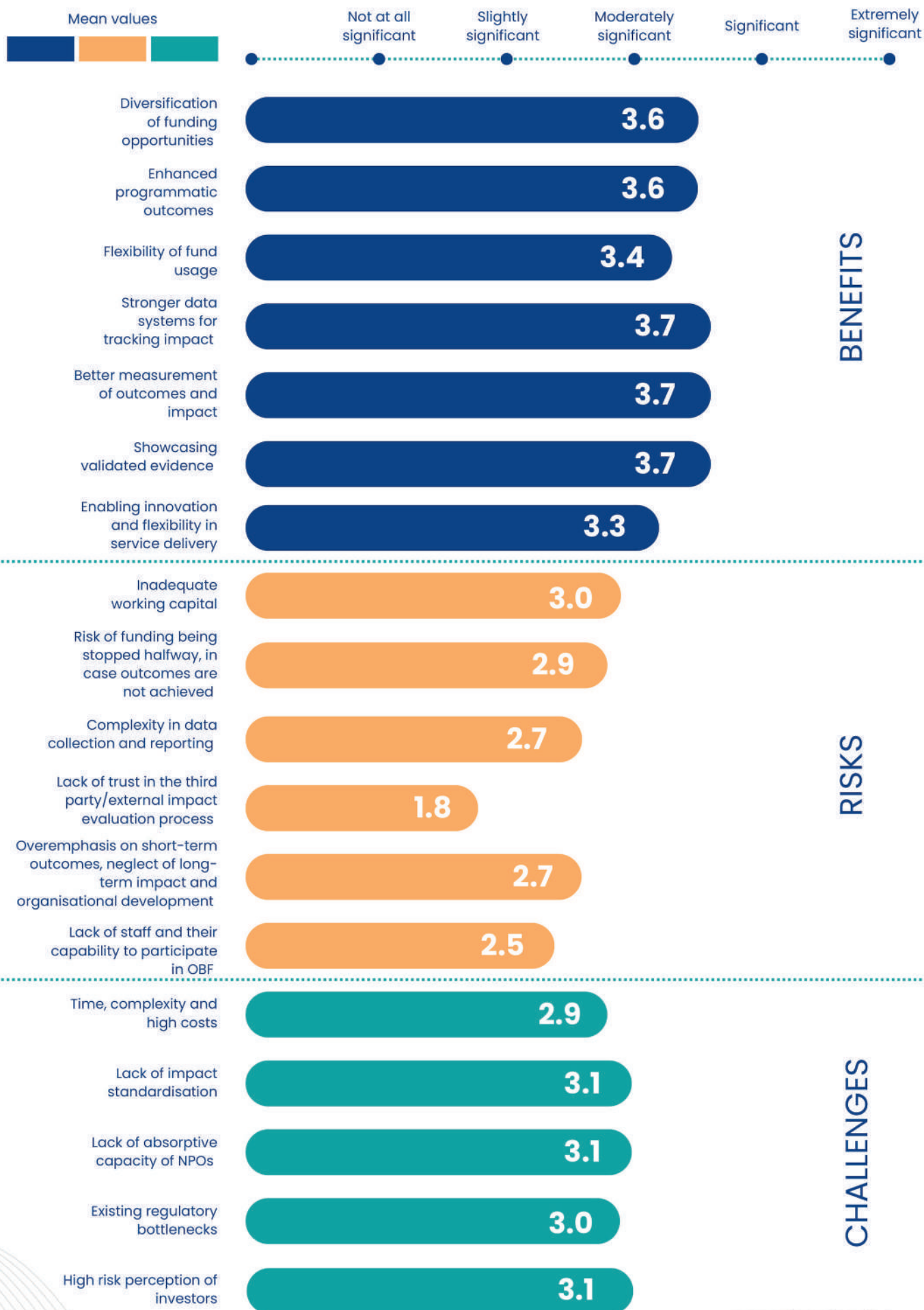


Lack of impact standardisation is a key challenge

Engage stakeholders for developing a shared understanding.



NPOs' Perceptions of Benefits, Risks and Challenges

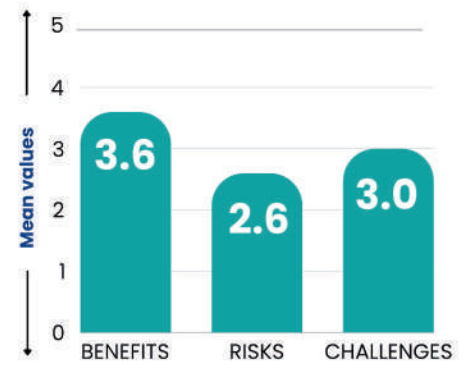


Source: Survey Data

NPOs' Perception of OBF

Not-for-profits have a positive outlook towards OBF, showing their willingness to explore OBF for their funding needs. They see more value in the benefits of OBF compared to its risks and market-level challenges.

- 83% of NPOs are interested in participating in OBF and perceive that OBF adds value to their organisation.
- NPOs give an average rating of 3.6 to statements related to the benefits that OBFs can provide their organisations, while giving an average rating of only 2.6 to statements related to the potential risks of OBFs to their organisations and average rating of only 3.0 to statements related to the potential challenges of the development of the OBF market.



Source: Survey Data

NPOs view OBF as a means to drive accountability, evidence-based decision-making and transparency, rather than as a means of simply expanding and diversifying their funding sources. This is also evident in their lack of concern regarding trust in third-party/external evaluation, an essential component of OBF, reaffirming their openness to be assessed and be accountable and transparent.

- "Showcasing validated evidence", "better measurement of outcomes", and "stronger data systems for tracking impact" are the top benefits of OBF, with a rating of 3.7 each, compared to "diversification of funding opportunities" with a rating of 3.6.
- NPOs have given a low rating of 1.8 to the risk "lack of trust in third-party/external evaluation".

Not-for-profits give relatively less importance to the flexibility provided by OBF in utilisation of funds and project implementation. Theoretically, these benefits should speak to the NPOs, as they address certain limitations inherent in traditional funding models. For instance, traditional funding models which prioritise inputs and activities do not allow flexibility in fund utilisation and changing activities/inputs to the project interventions, since funding is linked to inputs/activities. In the case of OBF, given that the funding is for outcomes, there exists flexibility in fund utilisation and inputs/activities to achieve the desired outcomes. However, evidence from the survey indicates that this benefit is of relatively lower importance to the NPOs as compared to other benefits that focus on accountability, transparency and evidence-based decision-making.

Positive outlook towards OBF

Path to drive accountability, evidence-based decision-making and transparency

Relatively less importance given to flexibility in OBF models

- NPOs rated "flexibility in fund usage" and "innovation and flexibility in service delivery" the lowest, with ratings of 3.4 and 3.3 respectively.



Financial concerns remain prominent

NPOs perceive the financial risks of “inadequate working capital” and the “risk of funding being stopped halfway, if outcomes are not achieved” as the primary risks of OBF. These risks remain consistent across NPOs, regardless of their annual budget size. This is notable, since OBF models, such as Development Impact Bonds (DIBs), are designed to address these issues. In a DIB, a risk investor provides the initial working capital, and the outcome funder reimburses the risk investor upon achieving the outcomes, thus shifting the financial risk away from the NPO. This indicates that it is essential to raise awareness about OBF instruments and dispel misconceptions to enhance NPOs’ understanding of and engagement with these mechanisms.

- On an average, the risk of inadequate working capital is given the highest rating of 3.0, followed by the risk of funding being stopped midway with a rating of 2.9.
- The differences in perception of most risks, including the financial risks of OBF, are not statistically significant across annual budget categories.

Lack of impact standardisation is a key challenge

NPOs identify the lack of impact standardisation as a key challenge in the development of the OBF market in India. This is contrary to the findings of our previous work⁶, where NPOs are reluctant about impact standardisation due to the complexity of the social sector. However, the findings of this study suggest that there is a need to engage with all stakeholders, especially the not-for-profits, to understand their perspectives on standardising impact and chart out a way forward. The interpretation of standardising impact may vary among stakeholders, ranging from establishing a shared understanding of impact to developing rigorous standardised frameworks and metrics.

- NPOs give a rating of 3.1 to “lack of impact standardisation”, with the highest percentage of NPOs, totalling 57%, rating it as significant and extremely significant.

KEY MARKET-LEVEL CHALLENGES

IMPACT
STANDARDISATION

6. ISDM (2023). Summary of Roundtable Discussions on Investing in Social Change: The Role of Innovation Finance in Driving Positive Impact. ISDM. <https://www.isdm.org.in/sites/default/files/2024-04/investing-in-social-change-the-role-of-innovation-finance-in-driving-positive-impact.pdf>

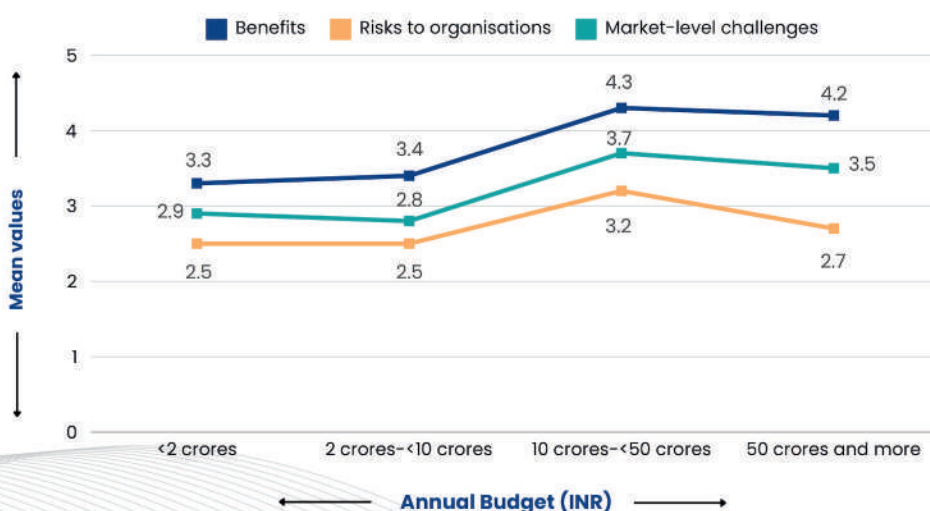
INFLUENCE OF ANNUAL BUDGET ON NPOs' PERCEPTIONS

NPOs with larger annual budgets value the benefits of OBF more as compared to those with smaller annual budgets, possibly due to their greater resources and capacity to realise OBF benefits. This trend also extends to their perception of market-level challenges, suggesting that larger budget NPOs may be more affected by market-level issues due to their market reach and connectedness. However, when it comes to perception of risks of OBF to the organisations, there are no consistent patterns based on the annual budget of NPOs.

- NPOs with an annual budget of INR 10 crores and more give relatively higher significance to the benefits with average ratings of >4.0 as compared to those with annual budget of <INR 10 crores with average rating of <4.0.
- NPOs with an annual budget of INR 10 crores and more give relatively higher significance to the market-level of challenges of OBF with average rating of >3.5 as compared to those with annual budget of <INR 10 crores with average rating of <3.5.
- For risks of OBF, NPOs with an annual budget of INR 10- <50 crores give the highest average rating of 3.2, followed by those with an annual budget of INR 50 crores and more with average rating of 2.7. This is followed by NPOs with annual budgets of INR 2-<10 crores and <INR 2 crores, with average rating of 2.5 each.

Larger budget NPOs value OBF more and also find more market-level challenges for OBFs

Perception of OBF across annual budget categories



NPOs with an annual budget of INR 10-<50 crores give the highest importance to the benefits and risks of OBF the most as compared to other annual budget categories. This is important, because NPOs in this budget range may be looking for additional finances to scale their interventions, and may have the necessary absorptive capacity required for OBF. They are at a pivotal stage in their project interventions and are exploring ways to receive funding in larger ticket sizes.

NPOs with an annual budget of INR 10<50 crores give the highest importance to the benefits and risks of OBF but also emphasise the need for capacity-building efforts

NPOs with an annual budet of INR 2<10 crores express concerns regarding neglect of long-term impact and organisational development

They see OBF as a means to facilitate these efforts. However, they also emphasise the need to provide capacity-building support to address concerns related to the risks of OBF, presenting an opportunity within organisations of this budget range to experiment with OBF.

- NPOs in the annual budget range of INR 10-<50 crores give the highest level of significance to the benefits of OBF with an average rating of 4.3, followed by INR 50 crores and more with an average rating of 4.2. This is followed by NPOs in the annual budget categories of INR 2-<10 crores and <INR 2 crores with average ratings of 3.4 and 3.3 respectively.
- NPOs in this budget category give the highest average rating of 3.2 to the risks as compared to other budget categories with average ratings of <3.

Overall, NPOs with annual budgets of INR 10-<50 crores perceive the highest level of concern regarding all risks associated with OBF. However, an exception emerges among NPOs with annual budgets of INR 2-<10 crores, where they are most concerned about the neglect of long-term outcomes and organisational development. Although they see value in OBF, they don't consider its benefits as highly as other budget category NPOs. This concern may stem from the ongoing establishment of systems and processes within their organisations. They prioritise organisational growth and development to establish stronger foundations before scaling up through a financing model, which in itself demands well established systems and processes for reporting, M&E, performance management, and risk management among others.

- NPOs with an annual budget of INR 2-<10 crores consider OBF risks to be of lower concern, with average ratings ranging from 1.7 to 2.8 for all risks, except for "overemphasis on short-term outcomes and neglect of long-term outcomes and OD", which averages 3.0. In contrast, NPOs with an annual budget of INR 5-<10 crores consider all OBF risks to be of higher concern, with average ratings between 2.2 to 4.0.
- NPOs with an annual budget of INR 2-<10 crores perceive a greater value add from OBF, averaging 4.2, compared to its benefits, averaging 3.2. In contrast, there is a consistency in perceptions of value addition from OBF and benefits for other annual budget categories.

INFLUENCE OF EMPLOYEE SIZE ON NPOs' PERCEPTIONS

Large NPOs, with an employee size of 250 or more (mainly comprising NPOs with an annual budget of INR 50 crores or more), find OBF more beneficial but also more challenging compared to other NPOs. However, their ratings of benefits are higher than market-level challenges. Large NPOs give high ratings to benefits related to accountability, evidence-based decision making, and transparency, reinforcing the overall findings. However, the perceived benefits are hindered by the lack of standardisation and the limited absorptive capacities of NPOs.

- On an average, large NPOs rated benefits at an average of 4.2, compared to other NPOs whose average ratings were in the range of 3.2 to 3.5. Additionally, these NPOs have highly rated benefits related to “stronger data systems for tracking impact”, “better measurement of outcomes and impact” and “showcasing validated evidence”, each receiving a rating of 4.4.
- On an average, large NPOs rated market-level challenges lower than benefits, at 3.5, while the other NPOs rated them within 2.6 to 3.3. Moreover, these NPOs have rated the challenges related to “lack of impact standardisation” and “lack of absorptive capacity of NPOs” as significant, each receiving a rating of 3.9.

Large NPOs value OBF more, rate benefits higher than the market-level challenges

Micro-sized NPOs (1 to 9 employees) tend to find OBF more beneficial, but also more risky and with more market challenges, than NPOs that are slightly larger (10 to 19 employees). The only exception is “inadequate working capital”, which is rated more important by the slightly larger NPOs.

Micro-sized NPOs find OBF more beneficial yet riskier than slightly larger NPOs

- On average, NPOs with 1 to 9 employees have rated overall benefits at 3.5, with “showcasing validated evidence” as the most important benefit, receiving a rating of 3.9, whereas NPOs with 10 to 19 employees have rated benefits at 3.2, with “stronger data systems for tracking impact” identified as the most important benefit, with a rating of 3.4.
- Further, NPOs with 1 to 9 employees have rated overall risks at 2.9, with “risk of funding being stopped halfway, in case outcomes are not achieved” and “complexity in data collection and reporting” as the most important risks, receiving a rating of 3.4 each. On the other hand, NPOs with 10 to 19 employees have rated risks at 2.1, with “inadequate working capital” identified as the most important risk, receiving a rating of 3.1, higher than the 2.9 rating given by the micro NPOs.
- NPOs with 1 to 9 employees rate challenges at 3.3, with “lack of absorptive capacity” receiving the highest rating of 3.6. Conversely, NPOs with 10 to 19 employees rated overall challenges at 2.6, with “time, complexity, and high costs” being the most important, rated at 2.9.

NPOs with larger workforce value certain benefits like diverse funding opportunities

As the workforce increases, certain benefits of OBF related to diversification of funding opportunities, evidence-based decision-making and flexibility in services delivery become more important. Other than this, no consistent trend is observed across different workforce capacities.

- NPOs with over 20 employees have given precedence to benefits such as “diversification of funding opportunities”, “enhanced programmatic outcomes”, and “enabling innovation and flexibility in service delivery”. The ratings for these benefits increase from medium-sized to large organisations, with 20 to 249 employees (3.4 to 3.6), to very large organisations, with 250 or more employees (3.7 to 4.1).

INFLUENCE OF SECTOR OF OPERATION ON NPOs' PERCEPTIONS

Education and Livelihood NPOs place higher value on OBF than those in "Other" sectors

Overall, NPOs share similar perceptions regarding most of the benefits, risks and challenges, regardless of the sector of operation

In the Indian context, the Education and Livelihood sectors dominate the current OBF space, with notable examples including Educate Girls and Early Literacy Outcomes.⁷ These sectors have been major government priorities, with over 50% of the non-profits in the sample receiving government funding.⁸ Due to the significant attention given to these sectors and their importance for inclusive development, well-defined metrics for impact measurement have been established, making NPOs in the education and livelihood sectors particularly suitable for outcomes-focused financing models.

- The NPOs in the Education and Livelihood sectors give relatively higher significance to the potential value addition of OBF models to the organisations with average ratings of >4.0 as compared to those operating in the "Others" category, with average rating of <4.0.

However, there are some notable sector-specific exceptions, with NPOs operating in sectors other than education and livelihood especially valuing the benefit of "flexibility in fund usage" with OBFs, while specifically calling out the risk of "overemphasis on short-term outcomes, neglect of long-term impact and organisational development".

- The benefit of "flexibility of fund usage" was found more important by organisations in "Other" sectors (4.7) compared to organisations in the education and livelihood sector (4.2).
- The risk relating to the "overemphasis on short-term outcomes, neglect of long-term impact and organisational developments" was higher for NPOs in the "Others" sector (4.0) as compared to those in the education and livelihood sectors (3.4).

Education & Livelihood NPOs **Value OBF More**



Other Sectors Value **Flexibility in Fund Usage**



Concerns in Other Sectors: **Overemphasis on Short-Term Outcomes and Neglect of Long-Term Impact**



7. ISDM (2023). Bridging Perspectives: Innovative finance insights from India. https://www.isdm.org.in/cifsi_resources/download-report/bridging-perspectives-innovative-finance-insights-from-india-1924

8. Observed from the survey findings

WAY FORWARD: PATHWAY FOR FUNDERS AND INTERMEDIARIES⁹

Education to Debunk Misconceptions and Advance Awareness

Develop targeted awareness campaigns and educational materials to highlight the benefits of OBF beyond accountability and transparency, emphasising other aspects that affect NPOs' operations and project implementation, such as flexibility in fund usage and inputs/activities required for project implementation. Address misconceptions around financial risks, such as inadequate working capital and funding interruptions due to unmet outcomes, by showcasing how existing OBF models are structured to provide working capital through risk investors. This will help debunk these misconceptions and facilitate NPOs' understanding of the OBF mechanisms.

Actionables

- Educational Workshops: Organise workshops and masterclasses to educate NPOs on the comprehensive benefits of OBF and the structures of OBF instruments.
- Information Campaigns: Launch campaigns using case studies and success stories to demonstrate the practical advantages and risk mitigation strategies in OBF.
- Resource Materials: Develop and distribute clear, concise educational materials that explain OBF models and address common misconceptions.

The Difference it Makes

- Addresses information asymmetries in the sector.
- Allows informed decision-making by the NPOs.



Education to debunk misconceptions and **advance awareness**

Actionables



Educational Workshops



Information Campaigns



Resource Materials

The Difference it Makes



Addresses Information Asymmetries



Allows Informed Decision-Making

9. This section is inspired from the Trust-based Philanthropy Project's work. See: Trust-based Philanthropy Project (n.d.). 6 Trust-Based Practices at-a-glance. Accessible at: <https://static1.squarespace.com/static/607452f8ad01dc4dd54fc41f/t/647fa8d84514d12c58382dc8/1686087897322/TBP+Approach.pdf>

Advance Engagement with NPOs with Annual Budgets of INR 10- <50 Crores

NPOs in the INR 10- <50 crores annual budget range represent a critical segment that is poised for growth and expansion. They perceive the benefits and risks of OBF most prominently, indicating a keen interest in leveraging this financing model for scaling their interventions.

Providing targeted support to these NPOs is essential to explore this opportunity and facilitate their successful engagement with OBF.

Actionables

- **Tailored Capacity-Building Programs:** Develop customised capacity-building initiatives specifically designed to address the unique needs and concerns of NPOs in this budget range. Offer training and resources focused on enhancing their understanding of OBF mechanisms and mitigating associated risks.
- **Facilitate Access to Funding Opportunities and Networks:** Work closely with funders and financial intermediaries to create pathways for NPOs in this budget range to access OBF. This not only involves providing them with the essential skills needed to implement OBF effectively, but also connecting them with networks of funders who are interested in providing funding to them once they are equipped with the required skills and capacities.

The Difference it Makes

- Empowers NPOs to seize growth opportunities and scale interventions effectively.
- Facilitates access to larger funding through targeted support and guidance.
- Strengthens capacity to navigate OBF mechanisms and mitigate associated risks.



Advance engagement with NPOs with annual budgets of INR 10- <50 crores

Actionables



Tailored Capacity-Building Programs



Facilitate Funding Access

The Difference it Makes



Growth Opportunities to Scale Interventions



Larger Funding Access



Strengthens Capacity to Mitigate Risks

Support Capacity-Building for Implementation and Streamlining Compliance

Establish programs to enhance the capacity of NPOs in data collection, reporting and skill enhancement of the staff. Provide on-ground support and streamline compliance and reporting processes to assist NPOs in implementing OBF.



Support capacity-building for implementation and streamlining compliance

Actionables

- Training: Offer training sessions to build NPOs' capacity in data collection, reporting and compliance.
- Technical Assistance: Provide on-ground support with infrastructure and technical support to help NPOs fulfil the reporting requirements of OBF.
- Simplify Compliance: Work with NPOs to streamline compliance processes, making it easier for NPOs to meet the OBF requirements.

The Difference it Makes

- Improves data accuracy and reporting efficiency.
- Reduce administrative burden associated with compliance.
- Support NPOs in their organisational development to be outcomes ready.

Actionables



Training Sessions



Technical Assistance



Simplify Compliance

The Difference it Makes



Improved Data Accuracy and Reporting



Reduces Administrative Burden



Supports NPOs' Organisational Development

Advance Impact Standardisation Initiatives with NPOs as Equal Partners

Engage NPOs in advancing impact standardisation initiatives and understand from them what impact standardisation means to them. Collaborative partnerships can develop more effective impact evaluation mechanisms that are responsive to not only the requirements of OBF, but also to the NPO's needs.

Actionables

- Participate in OBF Discussions: Participate in working groups, forums, and platforms that hold discussions on OBF and its related aspects, like impact measurement, ensuring that NPOs are actively invited and included.
- Involve NPOs: Regularly engage NPOs in discussions to refine and standardise impact measurement frameworks.

The Difference it Makes

- Builds mutual trust and understanding.
- Promotes collaboration in the social sector.



Advance impact standardisation initiatives with NPOs as equal partners

Actionables



Include NPOs in OBF Discussions



Standardise Impact Measurement with NPOs

The Difference it Makes



Builds Trust



Promotes Collaboration

Offer Support Beyond Funding for Project Interventions



Offer support beyond funding for project interventions

Extend financial support beyond project interventions and non-monetary assistance to enhance organisational resilience and leadership. It should include provisions for organisational development, facilitating capacity building among NPOs and streamlining essential processes like reporting and MEL practices.


Actionables

- Support organisational development: Fund OD¹⁰ and support capacity development, in addition to project funding.
- Collaboration for risk management: Collaborate with intermediaries to support NPOs in developing risk management strategies and use of data to make evidence-based decisions.
- Provide access to networks: Facilitate connections between their network of grantees to offer mutual capacity building support.

The Difference it Makes

- Strengthens leadership and staff capacity within NPOs.
- Encourages transparency in the process and structures.
- Promotes collaboration in the social sector.
- Building sustainability of outcomes.


Actionables



Support OD




Collaboration for Risk Management



Provide Network Access

The Difference it Makes




Strengthens NPO Leadership



Strengthens Structures and Processes



Fosters Collaboration



Builds Sustainable Outcomes

Provide Sector-Specific Support

Provide tailored support to organisations in the Education and Livelihood sectors, focusing on addressing sector-specific challenges and sharing existing use cases. Offer foundational support to sectors without established OBF frameworks to help them develop and implement OBF models.

Actionables

- Sector-Focused Workshops: Conduct workshops and share case studies specific to the Education and Livelihood sectors to demonstrate successful OBF applications.



Provide sector-specific support

Actionables



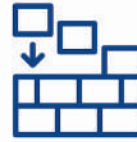
Sector-Focused Workshops

10. Venkatachalam, P. et al. (2023). Funder Practices that Strengthen Nonprofits' Resilience: Lessons from India. The Bridgespan Group. Accessible at: <https://www.bridgespan.org/insights/funder-practices-that-strengthen-nonprofits-in-india>

- **Foundational Support:** Provide resources and guidance to sectors without established OBF frameworks to help them understand and adopt OBF models.
- **Replicate Success:** Facilitate the replication of successful OBF models from the Education and Livelihood sectors to other sectors.

The Difference it Makes

- Facilitates replication of successful OBF models, leading to broader adoption across sectors.
- Encourages cross-sector learning and collaboration for more effective OBF implementation.



Foundational Support



Facilitate Replication

The Difference it Makes



Broader OBF Adoption



Cross-Sector Learning

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APPENDIX 1: RESEARCH METHODOLOGY

Overall Approach: This is a dipstick study and the research adopts an exploratory approach, using survey research methods to collect data from not-for-profits in India.

Data Collection: In collaboration with Parinaam, an online quantitative survey was conducted from October 2023 to January 2024. The survey was designed to capture organisation level data, including available certifications, geographical and sectoral operations, organisation size based on annual budget, size of the largest project, number of employees, and organisational practices, including presence of a fundraising team, impact assessment and MEL practices among others. Additionally, the survey sought responses on perceived benefits, risks to organisations and challenges associated with the development of the OBF market in India. The perceptions were collected using a Likert scale, including the rating of “not sure”(0), “not at all significant”(1), “slightly significant”(2), “moderately significant”(3), “significant”(4) and “extremely significant”(5).

Data sampling: The survey obtained responses from 71 NPOs, with the organisational level being the unit of analysis. The questionnaire features a number of multi select questions, wherein organisations were asked to select all options that align with their identity. These inquiries pertain to aspects such as registration, certification, sector of operations, states where projects are executed, primary sources of funding, and principal donor partners. Subsequently, these responses are analysed accordingly.

Based on the certifications, the sample is divided into two categories: FCRA certified and non-FCRA certified not-for-profit. This is because only these two groups are comparable, with 62% and 48% representation in the sample, respectively. In contrast, other certifications such as 80G, 12 A and CSR 1 were prevalent in over 90% of the organisations in the sample. Based on sectors of operations, the sample is divided into two categories: those in education and livelihood, and those that operate in sectors like WASH, gender, financial inclusion, energy, climate, etc. The classification is based on the OBF experience of not-for-profits in the Indian context, where organisations in these sectors have participated in OBF transactions. Moreover, the sample is skewed towards the not-for-profits focusing on either the Education sector or the livelihood sector only; however, combining both the sectors provides a balanced representation.

For the size of the organisations, the study uses three proxies: annual budget, size of the largest project, and number of employees. The annual budget categories are constructed to represent various levels of budget requirements necessary for implementing OBF, while also highlighting the diversity of NPOs participating in the sample (<INR 2 crores, INR 2- <10 crores, INR 10- <50 crores and INR 50 crores & more). Similarly, the different categories of the largest project size (<INR 50 lakhs, INR 50 lakhs- <2 crores, INR 2- <10 crores and INR 10 crores & more) represent the experiences of NPOs in taking up varied sizes of projects in the past. In addition, based on OECD categorisation, the number of employees, the sample comprises a wide range of organisations, including micro (1-9 employees), small (10-19), medium (20-49), large (50-249) and very large (250 and more).

Finally, for organisational practices, categorisation is done using three proxy variables, including the presence or absence of a fundraising team, impact evaluation practices, and the frequency of conducting MEL. The not-for-profits were categorised on these parameters to understand what factors influence the perceptions regarding OBF.

Data Analysis: Descriptive analysis was conducted to understand the sample characteristics. A number of not-for-profit categories were studied based on registration, certifications, geographical concentration, sectoral focus, size of the organisations and organisational practices. For the detailed understanding, the data on cross tabulations across multiple categories, such as size of the annual budget, largest project size, number of employees, MEL & IE practices, perceptions on benefits/risks & challenges, among others, were also analysed.

Subsequently, trends in the perceptions of not-for-profits were investigated. Initial analysis focused on overall perceptions, followed by further analyses across organisations based on parameters identified in sample characteristics. Specifically, a detailed examination was conducted on the average trend of perceptions rated by different types of NPOs, where the responses are weighted with respect to the level of significance. For instance, a weight of 0 was assigned to “not sure,” 1 to “not at all significant,” 2 to “slightly significant,” and so on.

In addition, to verify the differences in each perception across categories of organisations, a Kruskal Wallis (KW) test¹² was conducted. The null hypothesis of the test is that the medians of each group are the same, meaning that all groups come from the same distribution.

Conversely, the alternative hypothesis is that at least one of the groups has a different median, meaning at least one comes from a different distribution than the others. The level of significance was fixed at 20% (equivalent to an 80% confidence interval (CI)). The test is useful in understanding whether the perceptions are the same across the groups or not. However, it finds limited value in identifying which groups of the independent variables are statistically significantly different from each other; it only suggests that at least two groups were different. To address this, average values of each group were calculated to see which group had different perceptions and on an average, how much they differ from each other. The statistical significance or insignificance provided insightful evidence for the study to conclude the level of heterogeneity across the responses on OBF perception.

Limitation: Due to the quantitative nature of data collection, qualitative insights that could provide deeper insights into the explanations of the findings are not captured in the report. Future research endeavours could delve into qualitative investigations to further elaborate on the nuances captured in this report.

¹² What statistical analysis should I use? Statistical analyses using Stata. <https://stats.oarc.ucla.edu/stata/whatstat/what-statistical-analysis-should-i-usestatistical-analyses-using-stata/#nonparr>

APPENDIX 2: SURVEY QUESTIONNAIRE

The survey questions gather information about details of the organisations (including contact information, registration, certifications, geographical presence and sector of focus), scale of operations (including operating budget, size of the largest project, number of employees, sources of funding and the impact on direct and indirect beneficiaries), existing knowledge of OBF, organisational practices (including IE and MEL frequency), and perceptions on benefits, risks and challenges related to OBF.

Contact Information

1. Name of your organisation:
2. Founder/CEO name:
3. Organisation founded in (Year):
4. Link to your website:
5. Your Name:
6. Your Designation:
7. Your Email ID:
8. Mobile Number: (optional)

Registration and Certification Details

- a. Type of organisation
 - i. NGO/Not-for-profit
 - ii. Hybrid (Not-for-profit and social enterprise)
 - iii. Others (please specify):
- b. How are you registered? (Select all that apply)
 - i. Section 8 company
 - ii. Cooperatives/Society
 - iii. Trust
 - iv. 501 (c) (3)
 - v. Other
- c. Which of the following certifications does your organisation have?
(Select all that apply)
 - i. FCRA
 - ii. 80 G
 - iii. 12 A
 - iv. CSR 1

Geographical and Sectoral Focus

a. States in which your projects are implemented (list of all states and UTs)

(Select all that apply)

- i. Andhra Pradesh
- ii. Arunachal Pradesh
- iii. Assam
- iv. Bihar
- v. Chhattisgarh
- vi. Delhi [National Capital Territory (NCT)]
- vii. Goa
- viii. Gujarat
- ix. Haryana
- x. Himachal Pradesh
- xi. Jharkhand
- xii. Karnataka
- xiii. Kerala
- xiv. Maharashtra
- xv. Madhya Pradesh
- xvi. Manipur
- xvii. Meghalaya
- xviii. Mizoram
- xix. Nagaland
- xx. Odisha
- xxi. Punjab
- xxii. Rajasthan
- xxiii. Sikkim
- xxiv. Tamil Nadu
- xxv. Tripura
- xxvi. Telangana
- xxvii. Uttar Pradesh
- xxviii. Uttarakhand
- xxix. West Bengal
- xxx. Andaman & Nicobar (UT)
- xxxi. Chandigarh (UT)
- xxxii. Dadra & Nagar Haveli and Daman & Diu (UT)
- xxxiii. Jammu & Kashmir (UT)
- xxxiv. Ladakh (UT)
- xxxv. Lakshadweep (UT)
- xxxvi. Puducherry (UT)

- b. Sector of focus (Select all that apply)
- i. Livelihood
 - ii. Education
 - iii. Water, Sanitation, and Hygiene (WASH)
 - iv. Health
 - v. Financial Inclusion
 - vi. Energy
 - vii. Agriculture
 - viii. Nature-based solutions
 - ix. Climate
 - x. Gender
 - xi. Others

Organisation and Program Size

- a. Please indicate the number of full-time employees in your organisation, as on 31 March 2023 (Enter Number)
- b. Please indicate the number of contractual/part-time employees in your organisation, as on 31 March 2023 (Enter Number)
- c. Annual budget (in INR, for April 2022 to March 2023)
- i. Less than 10 lakhs
 - ii. 10 lakhs to <50 lakhs
 - iii. 50 lakhs to <2 crores
 - iv. 2 crores to <5 crores
 - v. 5 crores to <10 crores
 - vi. 10 crores to <25 crores
 - vii. 25 crores to <50 crores
 - viii. 50 crores to <100 crores
 - ix. 100 crores and more
- d. Size of your largest individual project (in INR, for April '22–March '23)
- i. <10 lakhs
 - ii. 10 lakhs & <50 lakhs
 - iii. 50 lakhs & <2 crores
 - iv. 2 crores & <5 crores
 - v. 5 crores & <10 crores
 - vi. 10 crores & more
- e. Please indicate the number of direct beneficiaries impacted through your programs (April '22–March '23):
- f. Please indicate the number of indirect beneficiaries impacted through your programs (April '22–March '23) (optional):
- g. Please provide the link to your latest annual report, if any (optional)

Funding Details

- a. Do you have a fundraising team?
 - i. Yes
 - ii. No
- b. What are your key sources of funding? (Select all that apply)
 - i. CSR Funding
 - ii. HNI and Family Offices – domestic
 - iii. Retail funding – domestic
 - iv. Institutional funding – domestic
 - v. Government funding
 - vi. Foreign funding
 - vii. Others
- c. Have you participated in an OBF transaction before?
 - i. No
 - ii. Yes
 - iii. Please specify
- d. If yes, please specify the kind of OBF you have participated in before (optional):

Partnerships

- a. Please indicate names of your major donor partners (optional):
- b. Please indicate names of your major NGO partners (optional):

Impact Evaluation

- a. How do you undertake impact evaluation?
 - i. Internal evaluation
 - ii. External/third-party evaluation
 - iii. Both internal and external evaluation
 - iv. Not conducted
 - v. Not conducted yet, but planning to undergo in future
- b. What impact assessment or evaluation approaches do you use? (Select all that apply)
 - i. Endline–baseline
 - ii. Case studies/anecdotal evidence
 - iii. Randomised control trials
 - iv. Observation methods
 - v. Data capture
 - vi. Others
- c. What is the frequency of conducting MEL internally for your programs?
 - i. Monthly
 - ii. Quarterly
 - iii. Half Yearly
 - iv. Annually
 - v. We do not have an internal MEL team

Perceptions on OBF

- a. Do you think OBF instruments can add value to your organisation?
- i. Not sure
 - ii. No, strongly disagree
 - iii. No, somewhat disagree
 - iv. Neutral
 - v. Yes, somewhat agree
 - vi. Yes, strongly agree
- b. Please rate the following potential benefits of OBF for your organisation on a Likert scale of 0-5:
- i. Diversification of funding opportunities
 - ii. Enhanced programmatic outcomes
 - iii. Flexibility of fund usage
 - iv. Stronger data systems for tracking impact
 - v. Better measurement of outcomes and impact
 - vi. Showcasing validated evidence
 - vii. Enabling innovation and flexibility in service delivery
- c. Please rate the following potential risks of the OBF for your organisation, on a Likert scale of 0-5:
- i. Inadequate working capital
 - ii. Risk of funding being stopped halfway, in case outcomes are not achieved.
 - iii. Complexity in data collection and reporting requirements
 - iv. Overemphasis on short-term outcomes, neglect of long-term impact and organisational development
 - v. Lack of staff and their capability to participate in OBF
- d. Please rate the significance of the major challenges facing the development of the OBF market India, on a Likert scale of 0-5:
- i. Time, complexity and high costs
 - ii. Lack of impact standardisation
 - iii. Lack of absorptive capacity of NGOs
 - iv. Existing regulatory bottlenecks
 - v. High risk perception of investors

Way Forward

- a. Is your organisation interested in participating in an OBF transaction?
- i. Yes
 - ii. No
 - iii. Not sure

- b. What support would you need for participating in an OBF transaction? (Select all that apply)
- i. Educational materials or training on OBF
 - ii. Assistance with compliance and due diligence process
 - iii. Information on potential OBF donors
 - iv. Assistance with MEL, reporting and impact assessment
 - v. Assistance with data management systems and processes
 - vi. Collaborating with organisations that have participated in OBF
 - vii. Others (please specify)

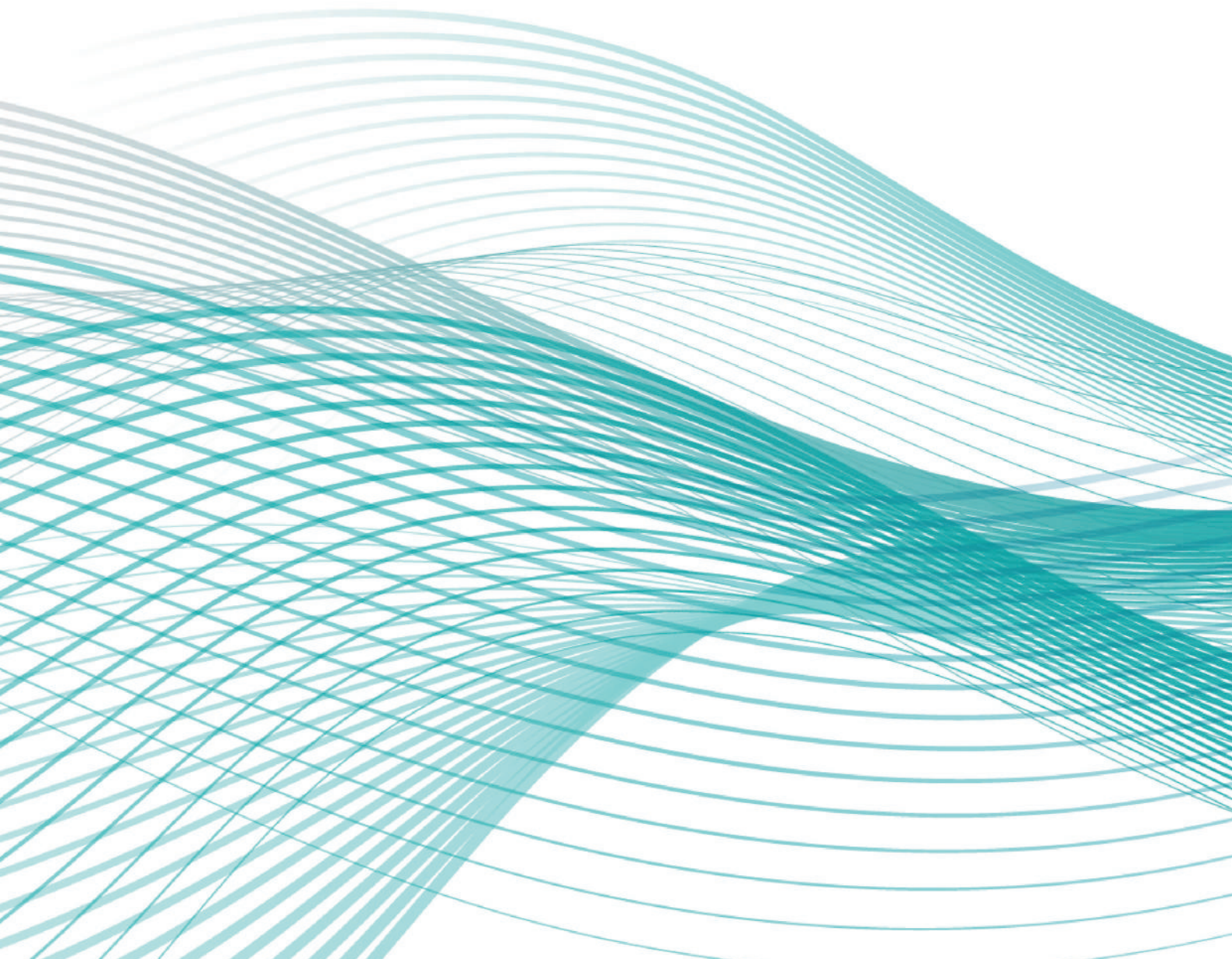
Consent

- a. Do you consent to us contacting you for participation in future events and training programs through the Parinaam platform and its partners?
- i. Yes
 - ii. No
- b. Consent for Publication in NGO Profile Book: Do you consent to the publication of your organisation's information in the NGO Profile book, a curated list of NGOs with their organisational information aimed at potential donors interested in funding organisations that can undertake OBF initiatives?
- i. Yes
 - ii. No

Thank you for taking the time to complete this survey. Your feedback is invaluable to our research. If you have any additional comments or suggestions, please feel free to share them below.

Additional comments/suggestions

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