

Innovative Finance Options

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Financing Urban Infrastructure

February, 2024

Urban infrastructure has been generally financed through...

Own sources, grants, borrowing

- Transfers/ Grants – from higher level of government: State and Central, can be tied or untied
- Own sources of revenue of the local government or utility – taxes, fees, rental income, etc.
- Grants from ODA and other development partners, bilateral donors
- Grants and loans from Multilateral investment banks

- Commercial borrowing – institutional, capital market
- Private sector through emerging public private partnerships

Potential new sources of funds

New sources and methods of financing urban sector

But there are some **new emerging financiers** –

- Private foundations and CSR
- Philanthropist foundations/donors /individuals – looking to improve effectiveness of their grants/ funding, or because of CSR requirements as in India
- Social investors – looking beyond financial returns to social/ environment impacts, patient capital

And **new methods of financing** being used by other funders..

- Multilateral and bilateral agencies using Output based Aid (OBA) and Program for results (P4R)
- Government programs using OBA / Results based funding (RBF) approaches
- Blended finance to leverage private and commercial finance

Results based approaches have started to become the norm

CSR – a potential new source in India

- The Companies Act, 2013 allows new models of social engagement by mandating that large companies spend 2% of their three-year average annual profit towards corporate social responsibility (CSR)
 - potential estimated annual flows from CSR of **Rs 17,000 Crores**
- Challenge to direct **CSR funds to urban, water and sanitation**
- Many companies already active in sanitation space but largely in rural areas – HUL, Ambuja Cement, ACC, Amul, GAIL, NTPC
- Swachh Bharat Kosh – mainly to be used for school sanitation



Its community development work is based on its mission and underscores our belief in communities and in our role as catalysts to bring in change.

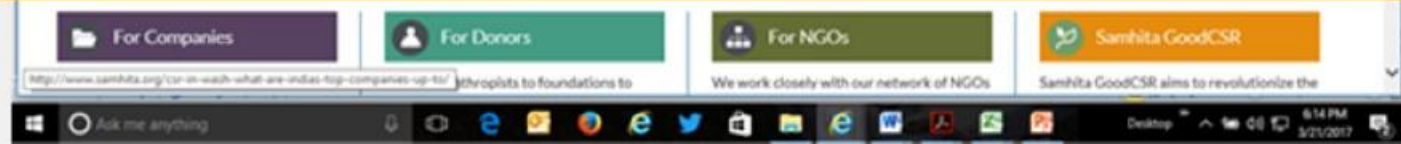


New Platforms to facilitate giving in India – Dasra, Samhita.

How GiveIndia Works

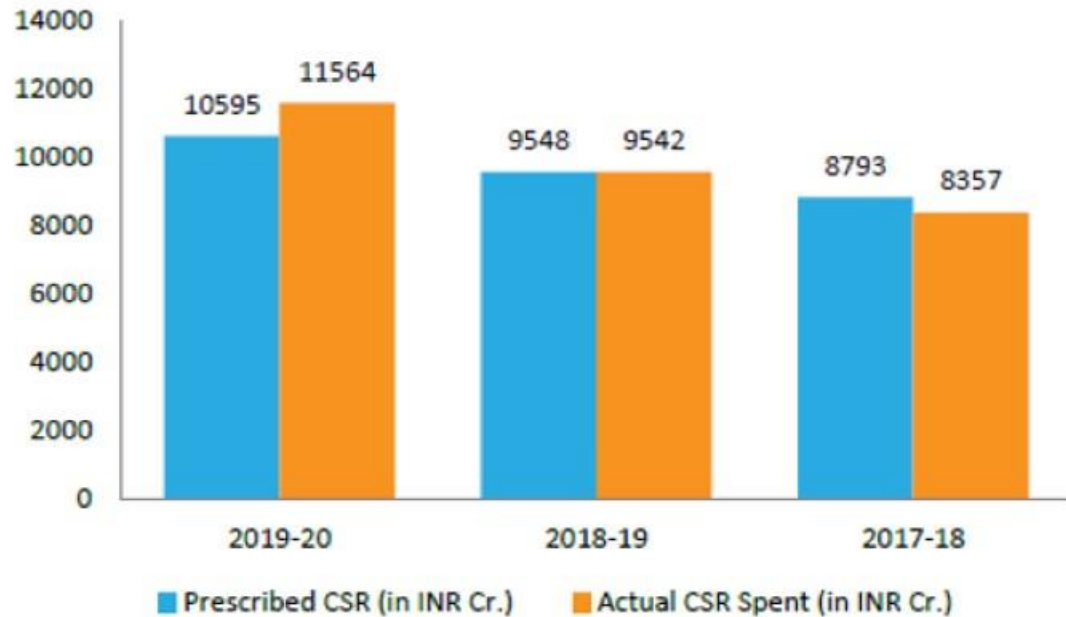


Donate to any cause of your choice, we guarantee your money will reach the needy

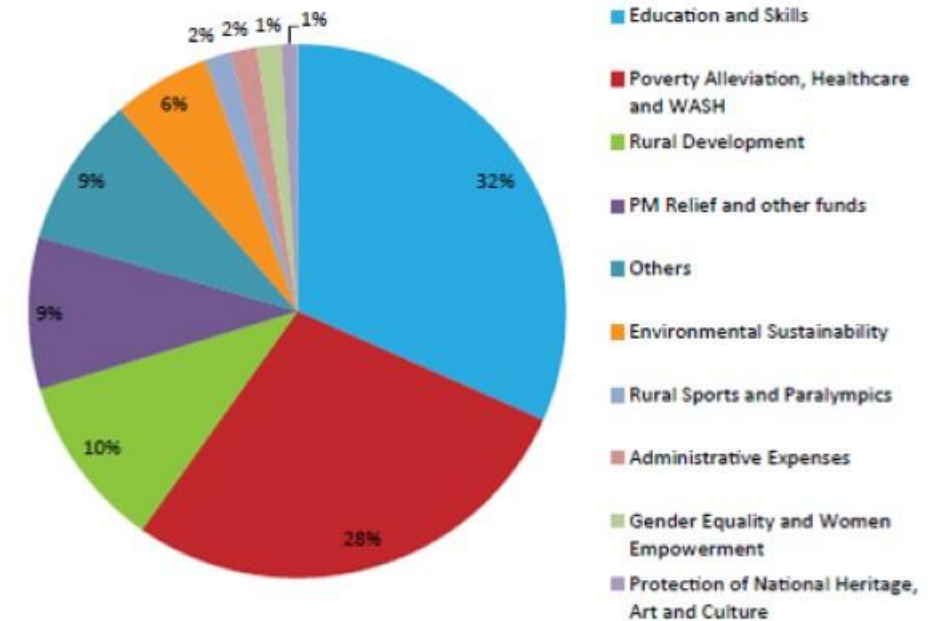


Reality of CSR in India

Prescribed and Actual CSR Trends Analysis (Last 3 financial years)



Thematic Distribution of CSR in FY 2019-20



- About 50% of the companies have spent more than their Prescribed CSR Budget for the year.
- Education & Skills and Poverty Alleviation, Healthcare & WASH and Rural Development emerge as the focused thematic areas which jointly cover 70% of India's total CSR fund.

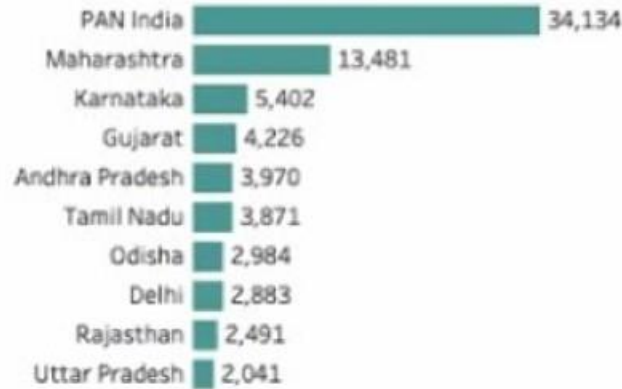
CSR trends

India's CSR (2014-20)

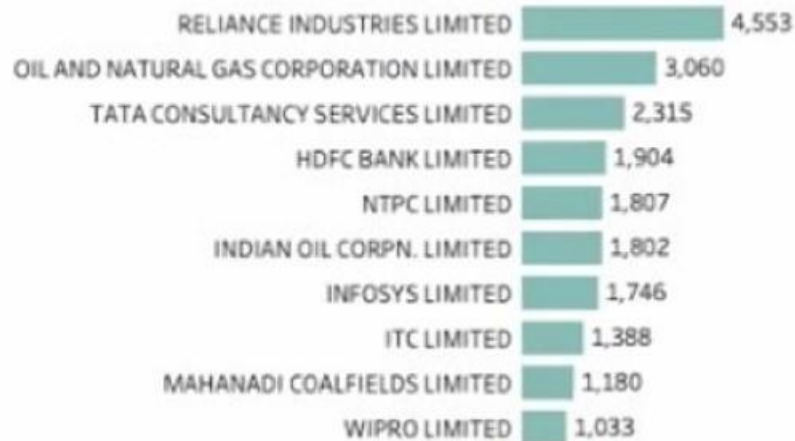
Top Recipient - Sectors



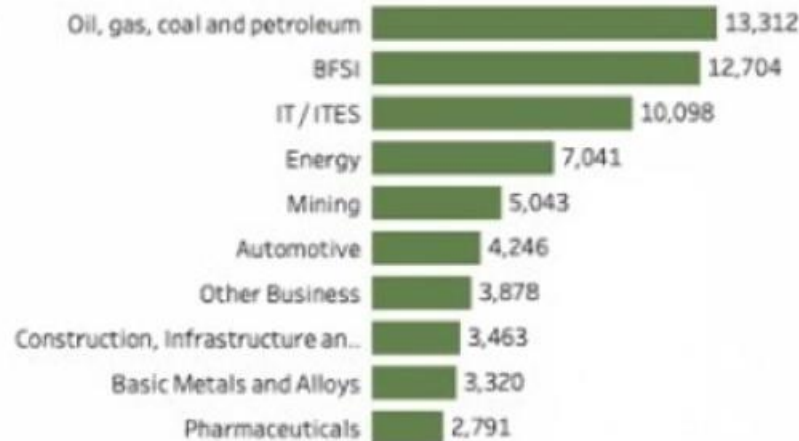
Top Recipient - Geographies



Top Funding Companies



Top Funding Industries



Some constants over the years :

Top recipient sector :
Education

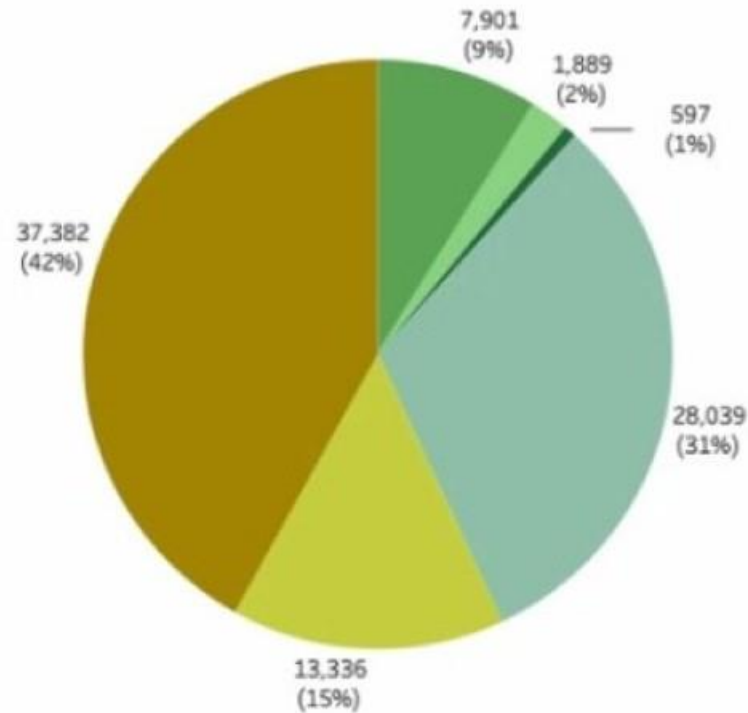
Top geography for CSR projects :
Pan-India

Top spender industry :
Oil & gas / BFSI

Top spender company:
Reliance Industries

CSR spending channels

CSR Spend (2014-20)



Mode of Implementation (INR Crores)

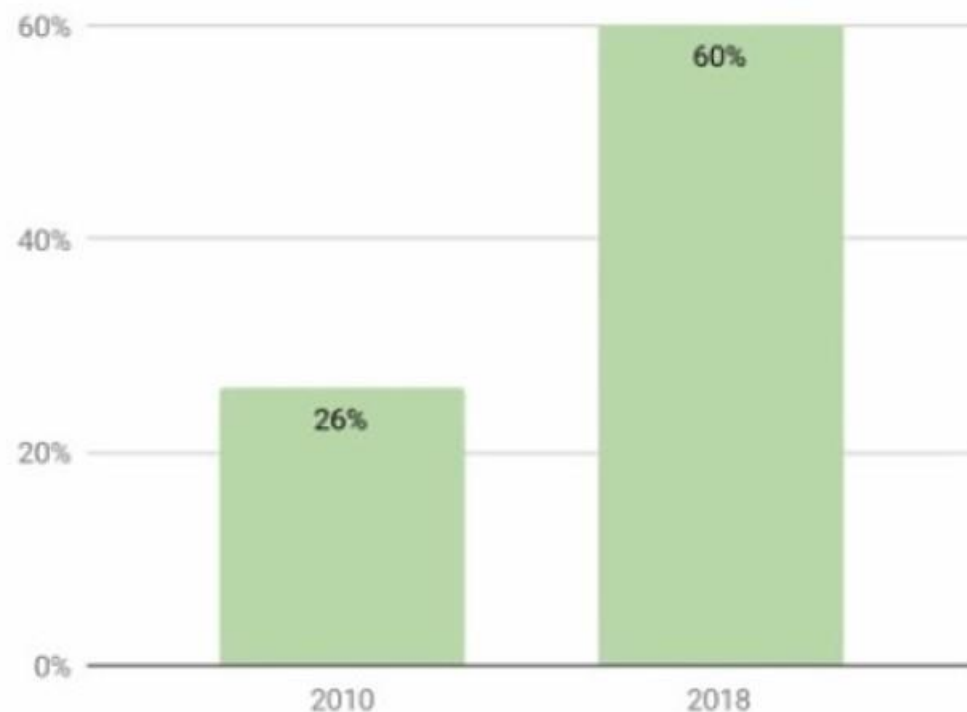
- By Trusts/ Societies/ Section 8 Company set up by the Company itself
- By Trusts/Societies/Section 8 company set up by Central or State Government or entities established under special Act of Parliament..
- Combined
- Directly by company
- NEC/ Not Mentioned
- Other Implementing Agency

Who are the potential social impact investors ?

- “Actively placing capital in businesses and funds that generate social /environmental good and at least return nominal principal to the investor” (Monitor group)
- Social impact investors emerging as a potential new source.. They include:
 - High net worth individuals (HNI)
 - Institutional social investors
 - Foundations
 - Large funds such as pension funds

Growth of U/HNIs: U/HNIs contributed ~60% of the total private funding in India, estimated at approximately INR 43,000 crore

GROWTH IN CONTRIBUTIONS BY INDIVIDUAL PHILANTHROPISTS (VALUES IN %)

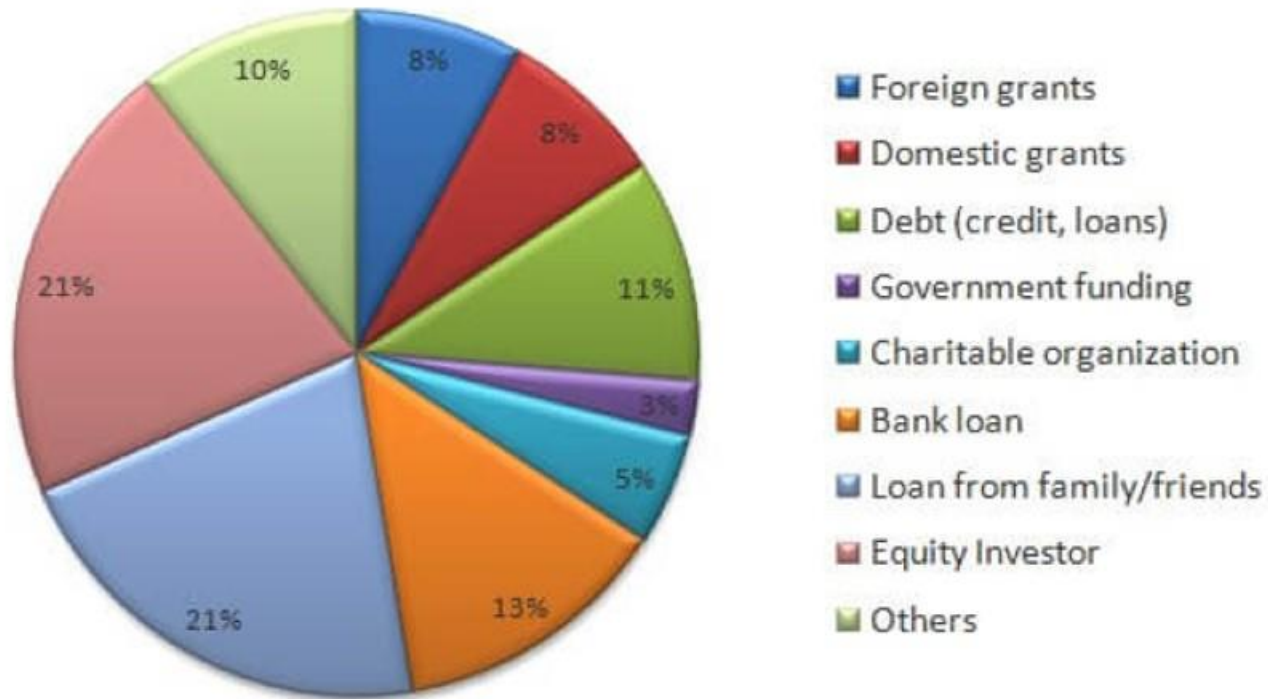


Key insights:

- U/HNIs are the **fastest growing segment for fundraising** - Number of UHNIs in India are expected to increase from about 62K in 2011 to about 330K by 2022
- In the coming decade, India is expected to have the highest wealth transfer **among multi-generation philanthropic families** - estimated at around **USD 128 billion**
- The top favoured philanthropic causes are **Education, Healthcare, Arts, Culture and Heritage and Rural Transformation**
- U/HNIs are more likely to provide **unrestricted funding** and become invested in the workings of their partner organisations

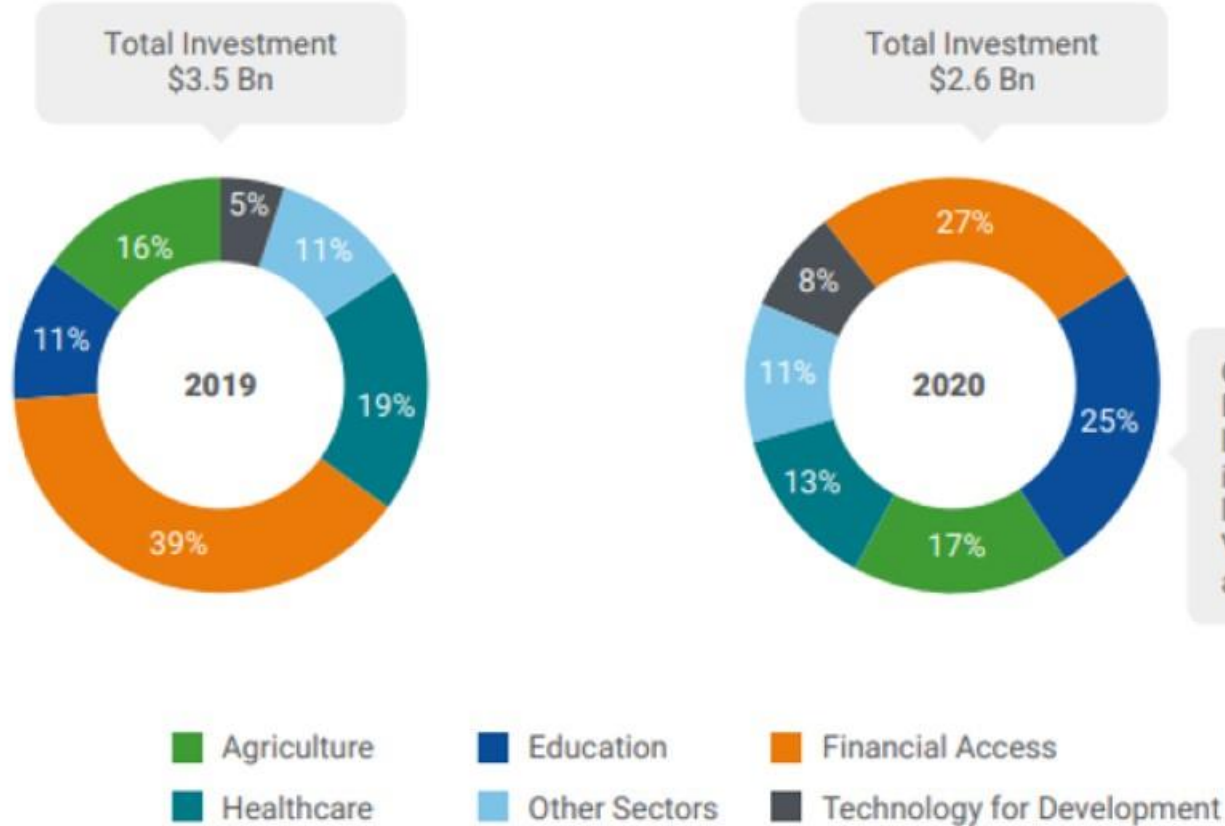
Sources of funds for social impact investment

Main Sources of Funding



- Fund Managers
- Development finance institutions
- Diversified financial institutions/banks
- Private foundations
- Pension funds and insurance companies
- Family Offices
- Individual investors
- NGOs
- Religious institutions

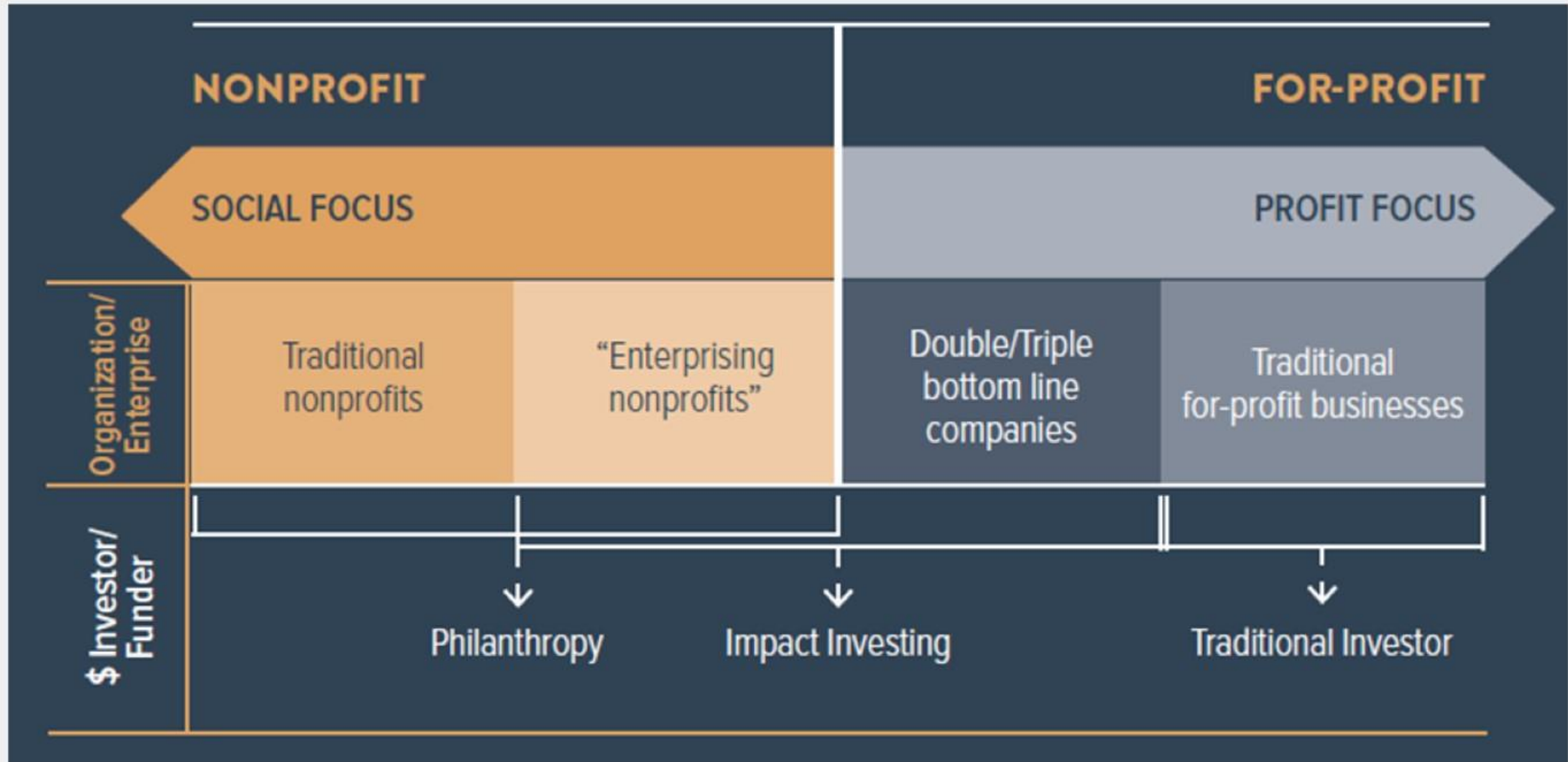
Impact investments in India



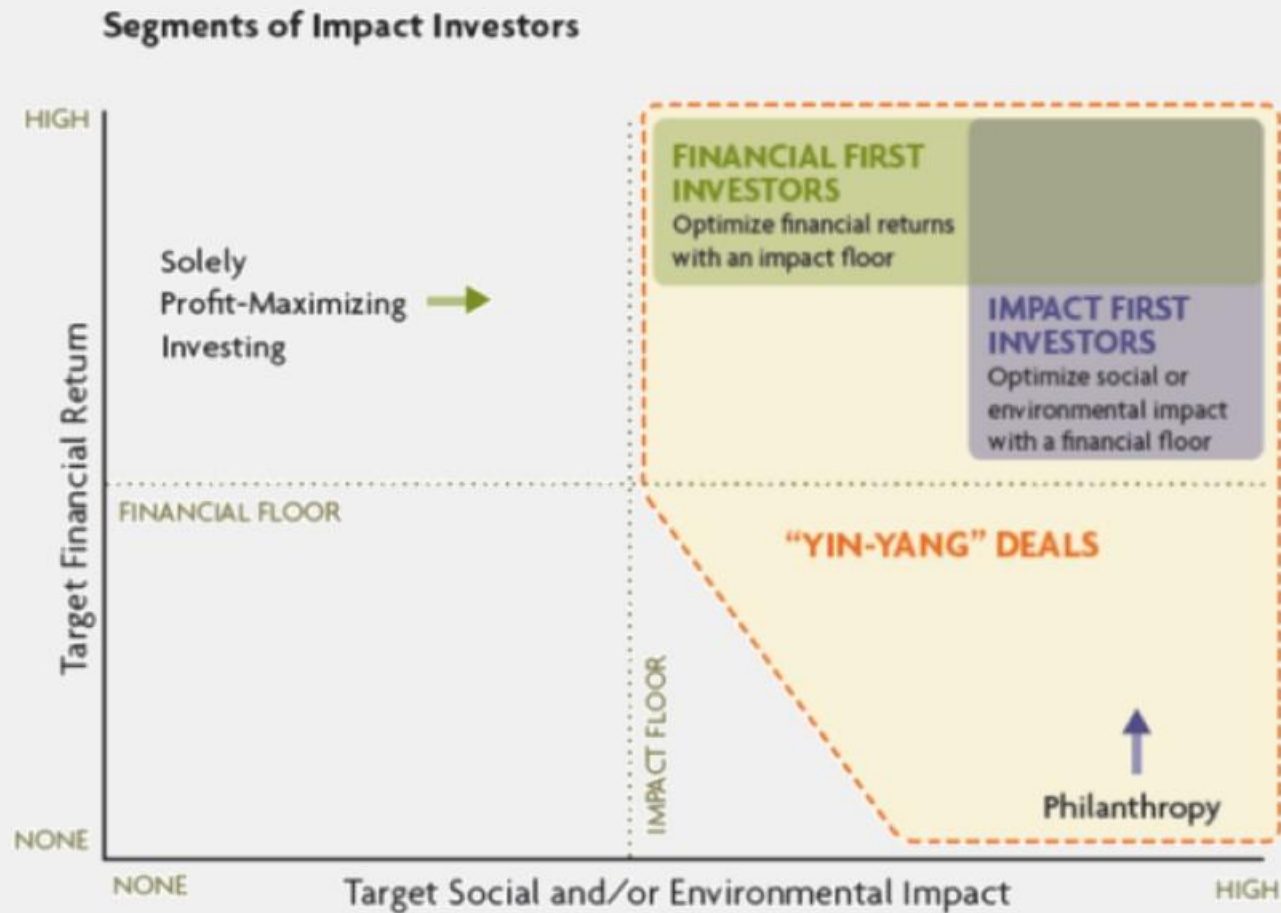
Growth in the Education sector led by investments in older players like Unacademy, Vedantu, Cuemath and Lead School

- \$2.6 Billion**
Mobilized by impact enterprises in 2020
- 243**
Equity Deals
- 16% Rise**
in Seed Stage Deals
- Education Sector**
in the Spotlight
- Tech-based**
Impact Solutions gain Popularity

Profit versus Social focus in impact investing



Segments of social impact investors



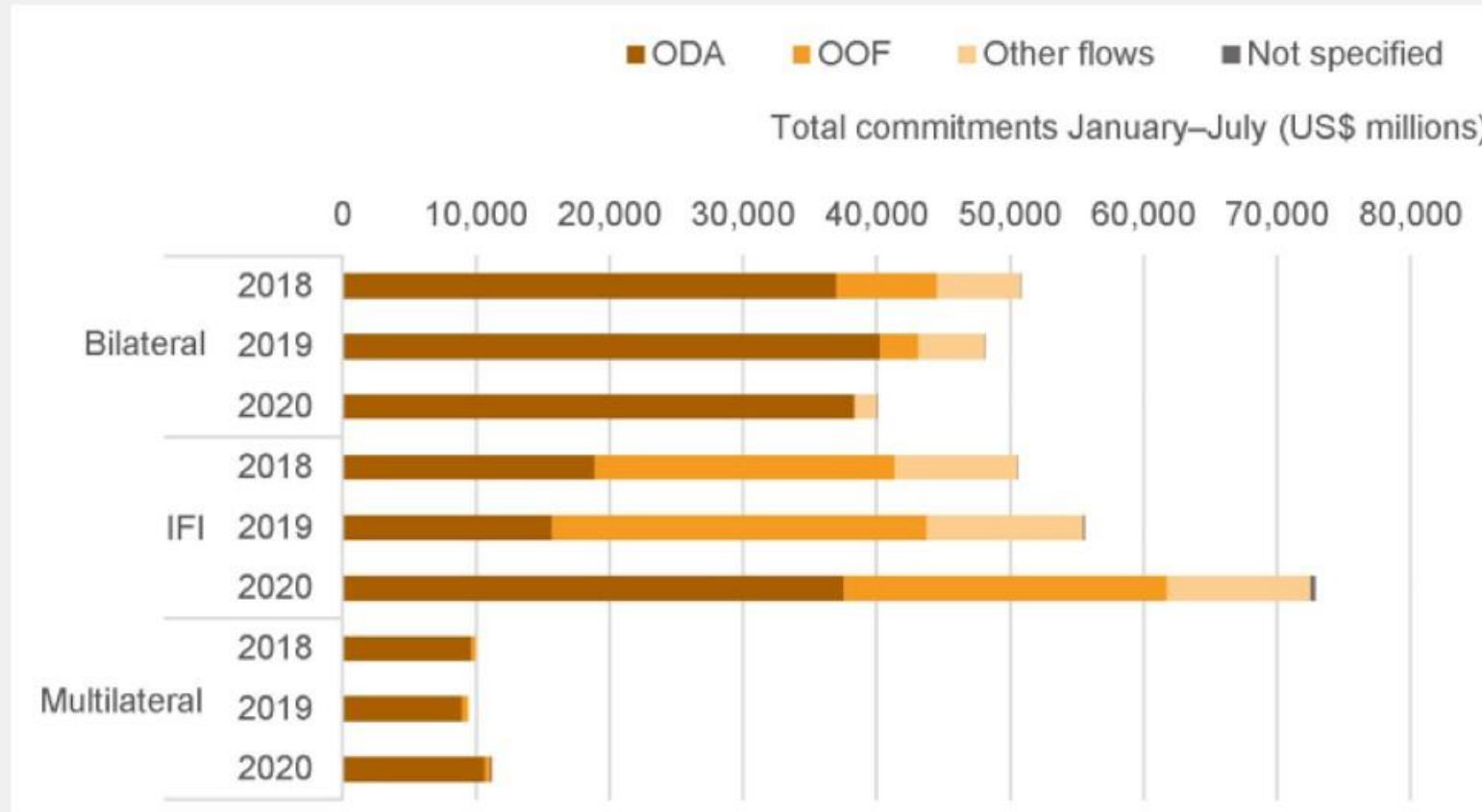
- **Financial floor and impact floor** distinguish two groups..
- **Philanthropy/ grants** will play a key role in supporting initial deals
- **Philanthropy Foundations** have emerged as important funders

New breed of bilateral donors - example UK Aid

- There are new ideas of **measurable impacts on the ground**
- For donor countries there is a need to show results to voting population e.g. UKAID, UK now has an **Act (International Development (Official Development Assistance Target) Act 2015)** that requires UK Government to put **aid to developing countries at 0.7% of GNI**
- The Secretary of State must make arrangements for the **independent evaluation of the extent to which UK ODA represents value for money**. The Secretary of State must include in each annual report a statement as to how he or she has complied with this duty

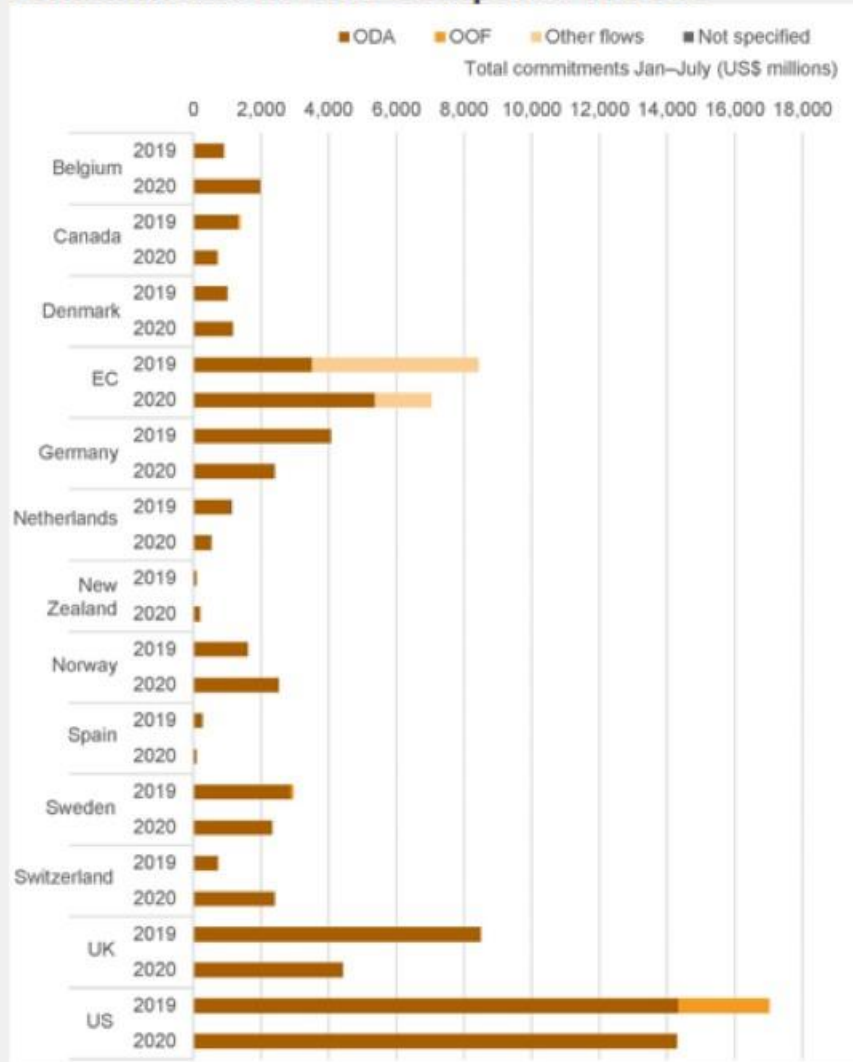
Many new emerging bilateral donors – growing aid flows

Aid commitments from IFIs have grown substantially in 2020 compared to 2019 – while bilateral donors' aid commitments have declined

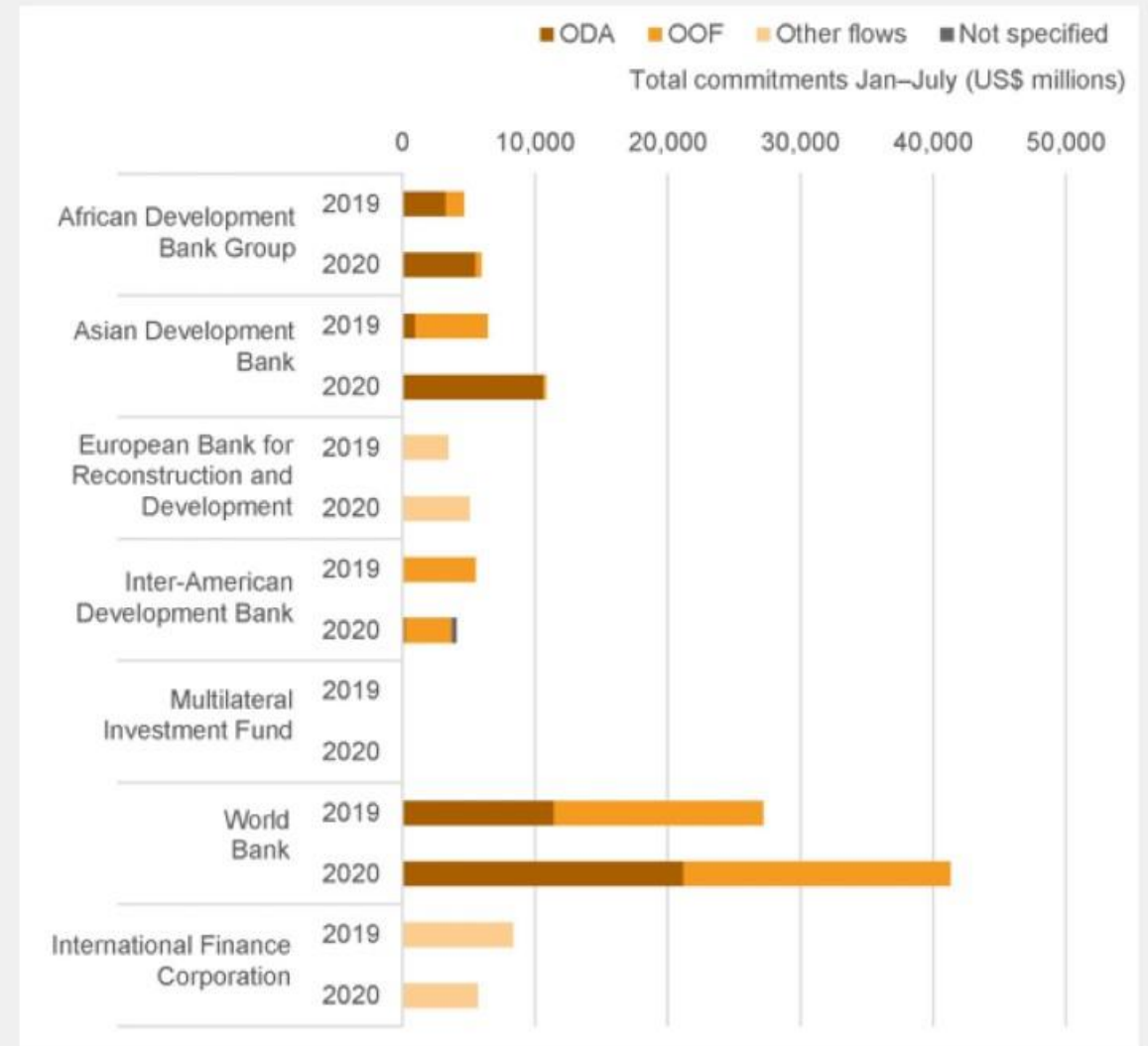


Many new emerging bilateral donors – growing aid flows

Just over half of bilateral donors have cut aid commitments in 2020 compared to 2019



The World Bank, and Asian Development Bank, are driving substantial increases in IFI aid commitments



Results based funding mechanisms

New sources and methods of financing urban sanitation

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And **new methods of financing are** being used by different funders..

Multilateral and bilateral agencies using Output based Aid (OBA) and Program for results (P4R)

Government programs using OBA / Results based funding (RBF) approaches

Blended finance to leverage private and commercial finance

Results based approaches have started to become the norm

What is 'Results Based Funding'?

Public funds or those from donors or social impact investors are made available not as “inputs” but only on delivery of “outputs or agreed performance”, generally for innovative approaches

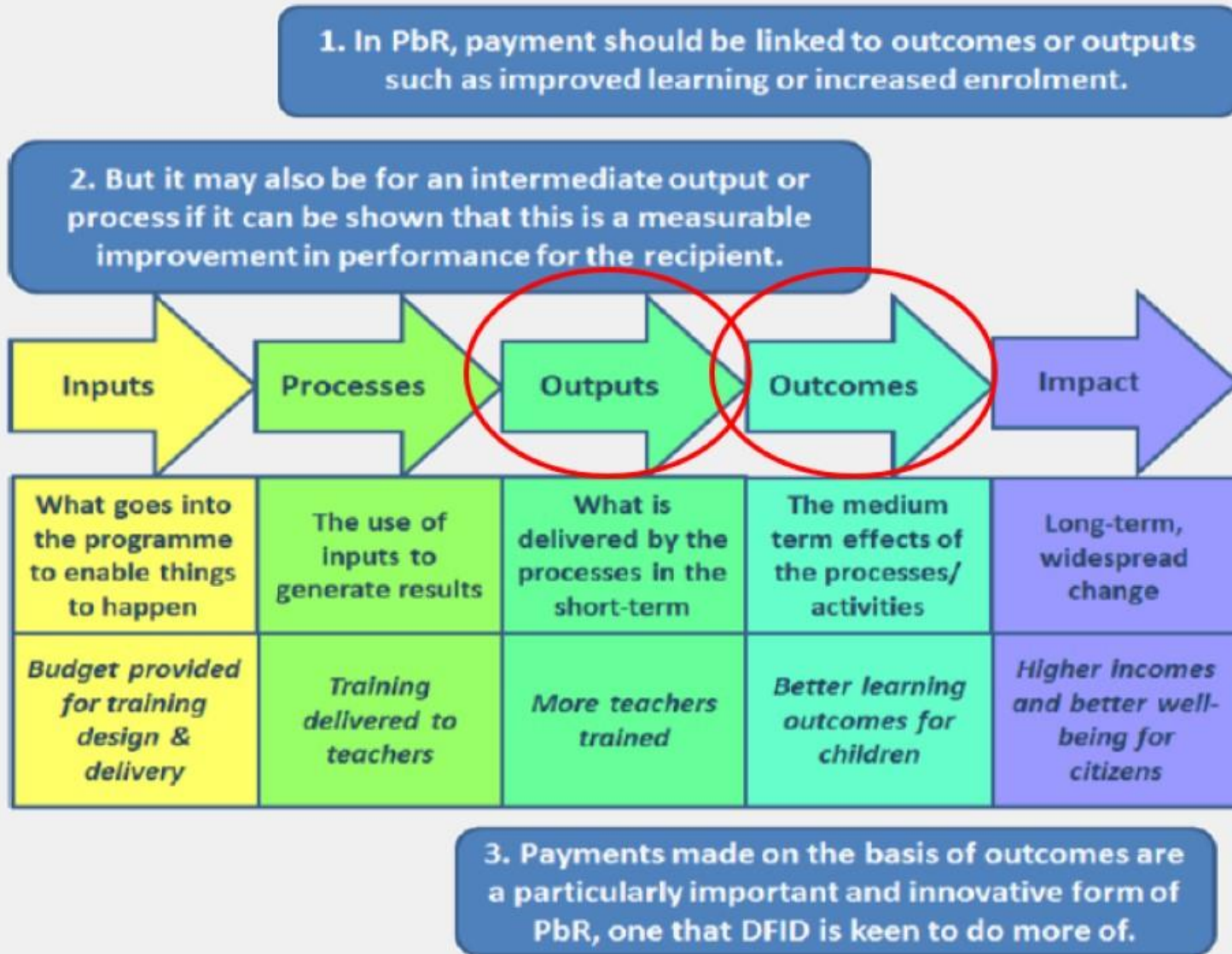
Also referred as **Payment by Results (PbR)** particularly by DFID, UK

Why is Results-based Funding Needed?

Results focus may not happen on its own...

- Government funding is often **insufficiently focused on results and performance** and more on outputs and fund utilization
- **Inadequate performance evaluation** allows ineffective programs to persist
- The **proof-of-concept process for social innovations is slow**
- **Innovation is risky and public officials are wary of failure**
- BUT – Performance-based funding requires **upfront investments and the ability to absorb risk**

Figure 1: The results chain



Results chain is critical

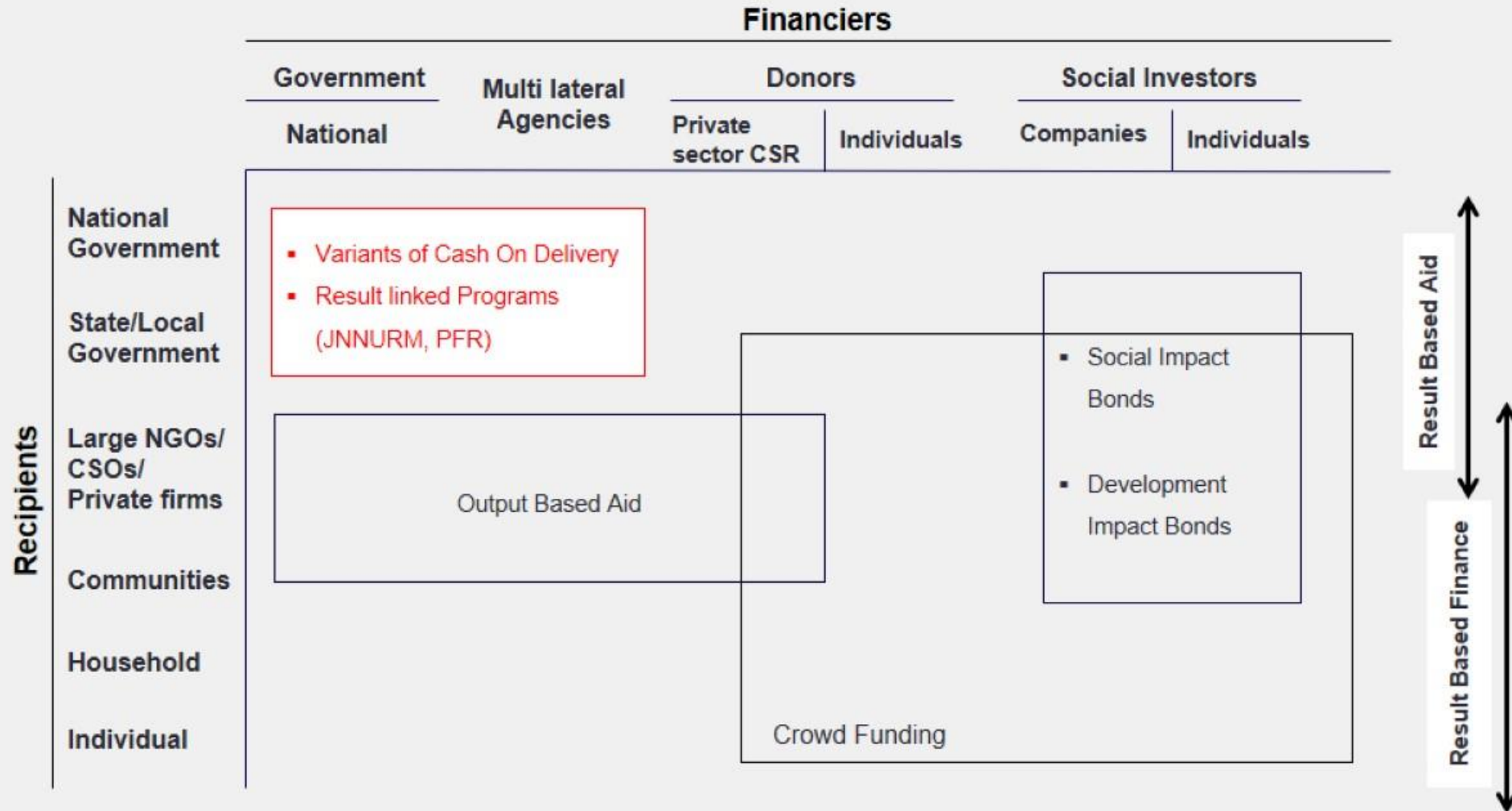
Different methods such as (RBA, RBF, COD, OBA, P4R etc.) reflect a combination of financier, recipient and results for payment. Some are linked to **outputs (OBA)** or some to **outcomes (COD, SIB, DIB, P4R, etc.)**

Extent of financing /funding linked to results can also vary

Emerging Results Based Funding (RBF) Mechanisms

- **Results Based Aid**
 - Variants of Cash-on-Delivery (COD)
 - Output based aid (OBA)
 - Crowd funding (grants)
- **Results based financing**
 - Results linked programs: World Bank/ ADB – programme for results (PFR)
 - Social impact bonds, development impact bonds
 - Crowd funding (debt)

Innovative Financing – an overview



Cash on Delivery (COD) Aid / Payment by Results (PBR)

Cash 
On
Delivery ₹



- Cash on Delivery is a new approach to foreign aid that focuses on **results, encourages innovation, and strengthens government accountability to citizens rather than donors.**
- Under COD Aid, donors would pay for measurable and verifiable progress on specific outcomes, such as \$100 dollars for every child above baseline expectations who completes primary school and takes a test.

How are COD /PBR systems supposed to work?

- “**Attention**. Because funds are linked to outcomes, **politicians and bureaucrats will pay more attention to results** and manage things differently than they would otherwise.
- “**Accountability**. RBA agreements make outcomes visible to citizens in funding and receiving countries, allowing **citizens to hold their governments accountable for performance**.
- “**Recipient discretion – innovation**. By linking payments to outcomes rather than inputs, funders give recipients **wider latitude to design and implement strategies** of their own making.”

World Bank – Program for Results (P4R)

- WB financing instruments
 - Investment project financing
 - Development policy lending
 - New: “**Program-for-Results**” (P4R) financing
- Key features of P4R
 - Disbursements are linked to the achievement of tangible and verifiable results
 - **Disbursement-linked-indicators (DLIs)** play a critical role
 - **DLIs can be ‘outcomes, outputs, intermediate outcomes or process indicators**
 - Builds capacity and strengthens program institutions

World Bank – Program for Results (P4R)

- Provides assurance that financing is used ‘appropriately’, and environmental and social impacts are addressed
- Strengthens **effective partnerships with governments** and their agencies – as results are defined by governments in consultation with the Bank
- **P4R helps leverage Bank funding by linking with Government's own programs.** By 2018, 77 operations with \$19.9 billion Bank financing. By 2013, it had helped **leverage 2.4 times government funding**
- **As of September 30, 2020, there are 113 active PforR operations totaling \$33 billion of Bank financing. In many cases, P for R operations have served as a platform to mobilize development partner support around government programs and the strengthening of those program systems.**

Examples of DLIs from Bank P4R Operations



Program Outcomes

Percentage of children aged 12-23 months immunized with Pentavalent 3 vaccine

Access to Services

Percentage of population provided with access to improved water supply in rural communes

Participatory Governance

Percentage of women and youth in local governance bodies

Systems Improvements

Percentage of key staff (in specific units) trained in environmental and social safeguards and management guide

Source: Saadah Fadia (n.d.), "Beyond the Boundaries: Program-for-Results and the Role of Leverage in Scaling up Results", p. 7.

Examples of DLIs

Question:

- What could be examples of DLIs in a P4R project by the World Bank for improving municipal performance?

Examples from WB's Punjab Public management Reform Program

- Improved citizen access to information about key services
- Improved management of key services
- Improved urban property tax collection

Examples of DLIs – Sanitation Rural, India – USD 1.5 billion

Question:

- What could be examples of DLIs in a P4R project by the World Bank for rural sanitation (SBM) in India?

Examples from WB's SBM Grameen support program

- Reduction in the prevalence of open defecation (Number)
- Sustaining ODF status in villages (Number)
- Increase in rural population with Solid and Liquid Waste Management (Number)
- Operationalization of Performance Incentive Grant Scheme by Ministry of Drinking Water and Sanitation (Yes/No)

Incentive scheme for ODF cities by the Government of Maharashtra

1. **Self declaration** by ULBs

2. Validation at **Collector (District) Level**

3. **1st Validation** by **State Level Committee**

State sends the list of State Level Validated ODF cities to MoHUA

4. Validation by **Third Party, GoI (MoHUA Protocol)**

5. **2nd Validation** at **State level** by **Third Party**
(1 year after the first validation)

30%

30%

40%

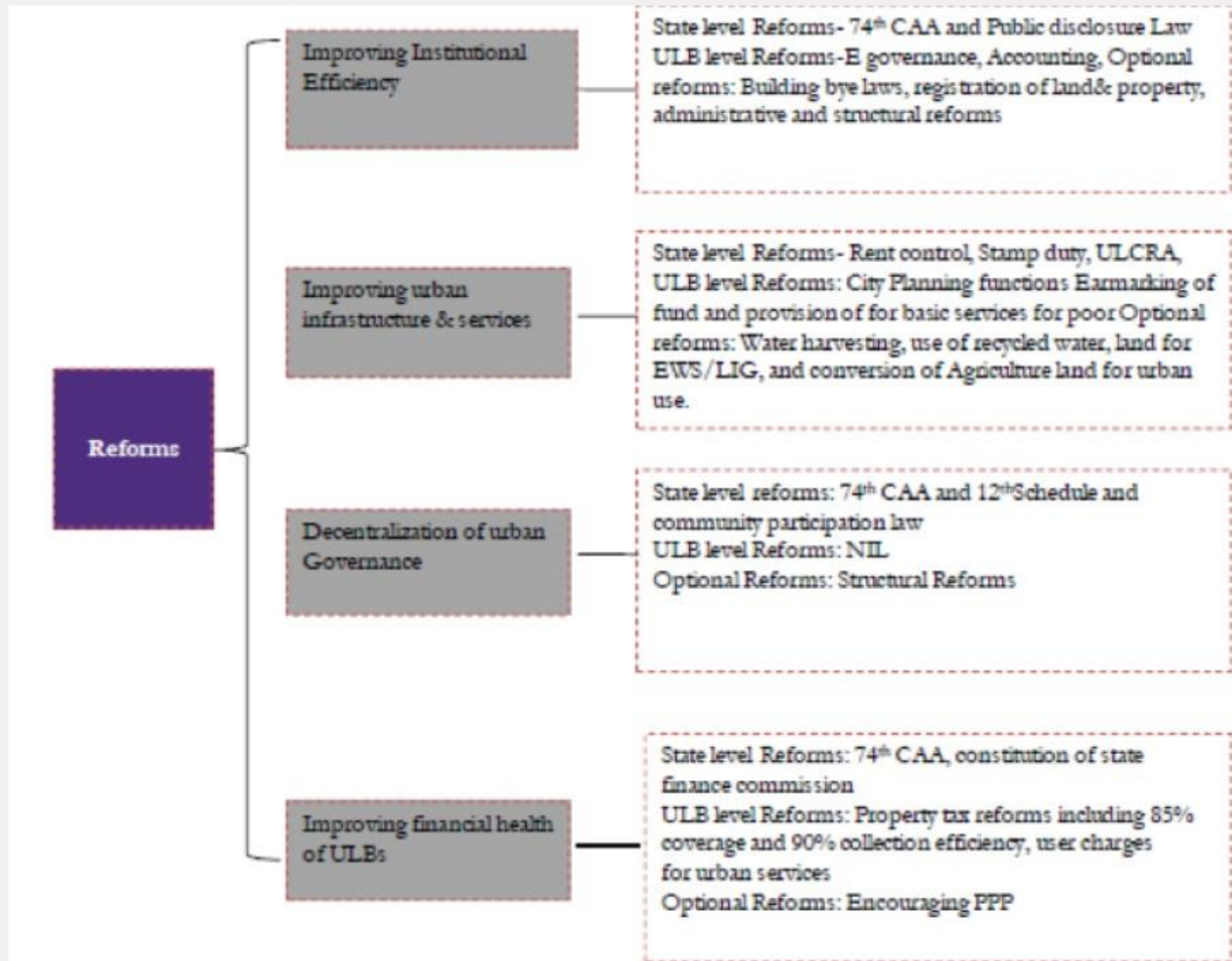
Incentive Scheme
Rewards to ODF cities for moving towards ODF+

Incentive scheme for ODF cities by the Government of Maharashtra

	ODF Cities (Rs.)	Swachh Cities (Rs.)	Linked to Sustainability and ODF+
A Class	2 Cr.	2 Cr.	30% released on first State validation, if positive 30% released on national validation, if positive 40% released on 2 nd State validation after a year, if positive
B Class	1.5 Cr.	1.5 Cr.	
C Class	1 Cr.	1 Cr.	

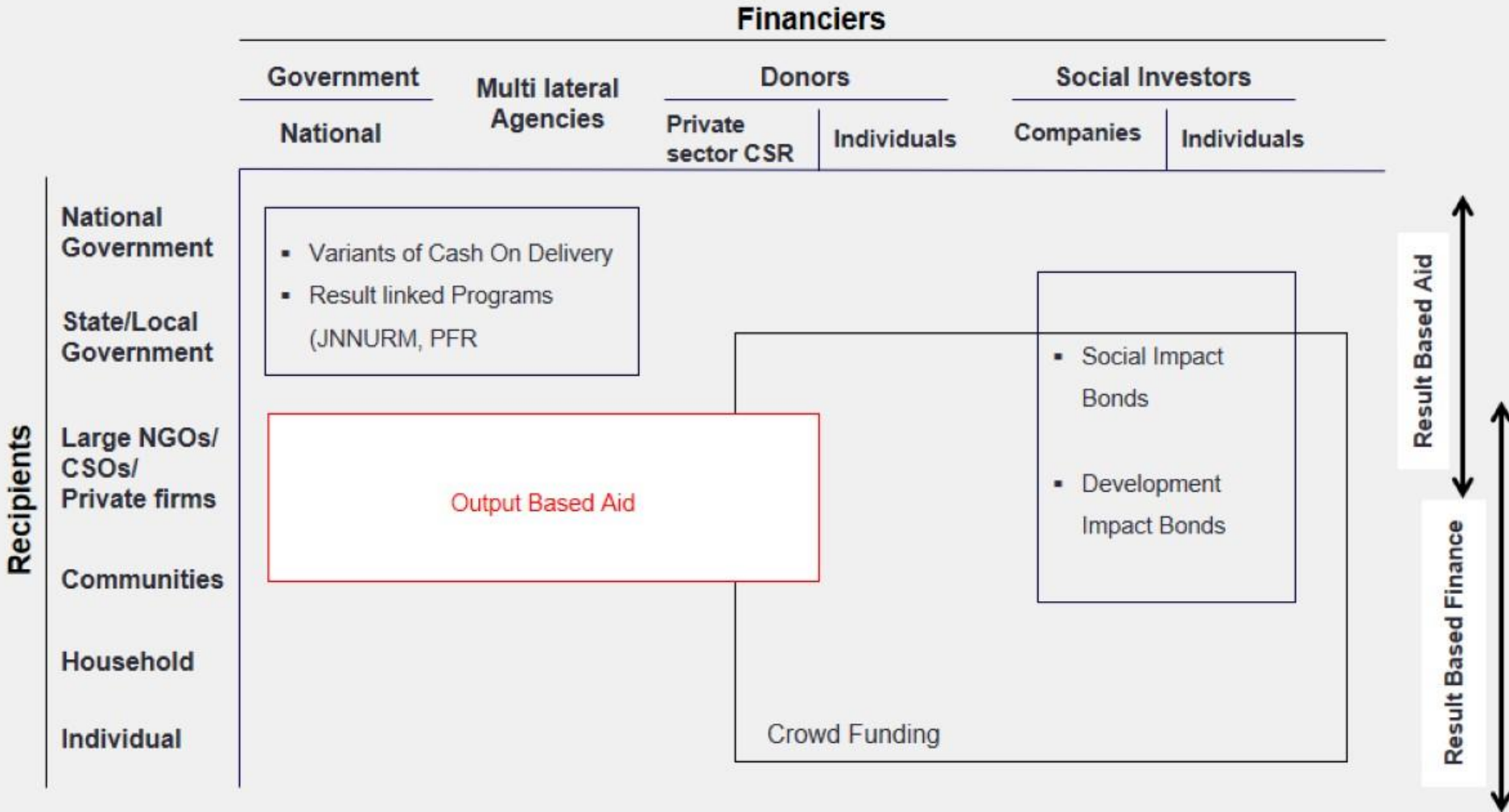
*Utilisation of funds for
Sustainability and moving towards ODF+ and ODF++*

JNNURM – a reform linked program??

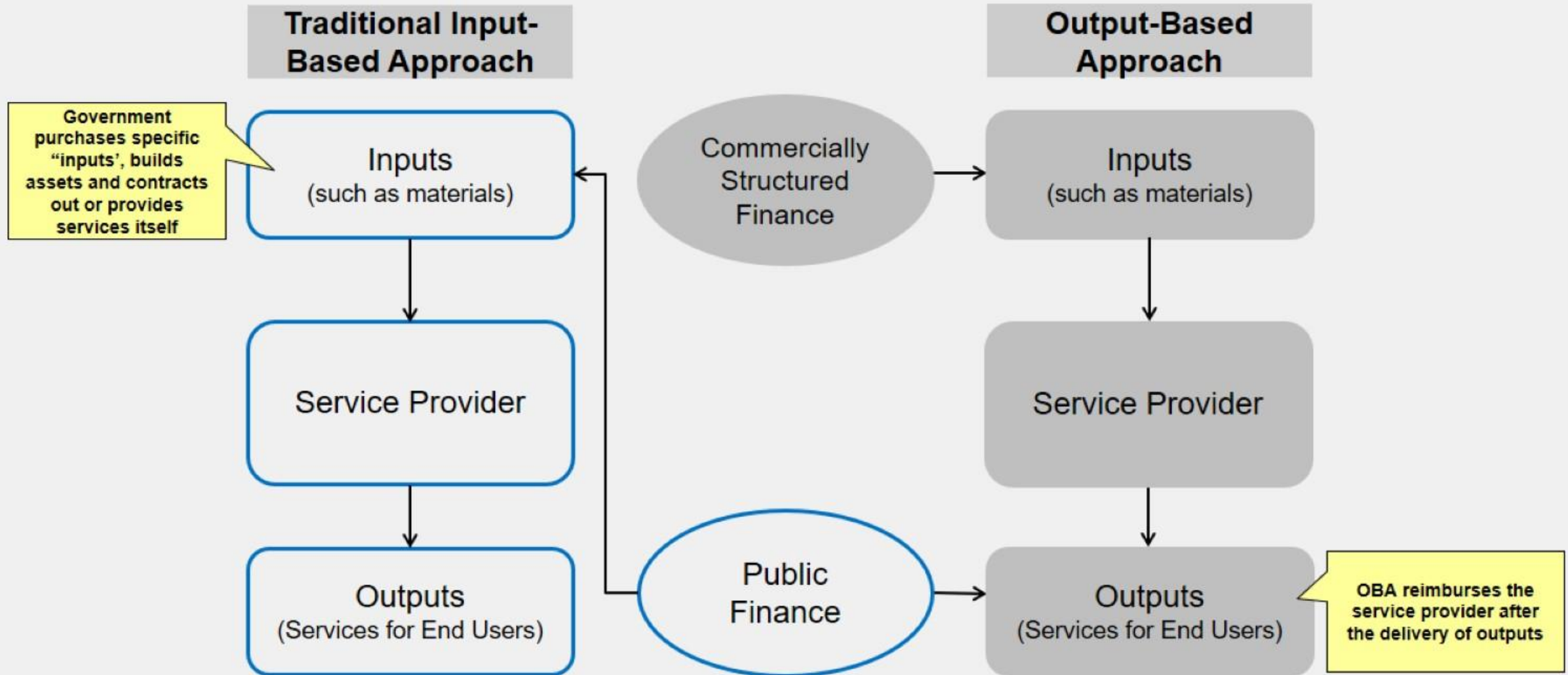


- JNNURM is a reform linked program
- Can JNNURM be referred as results based aid?
- What would be needed to make it a results based program?

Innovative Financing – an overview



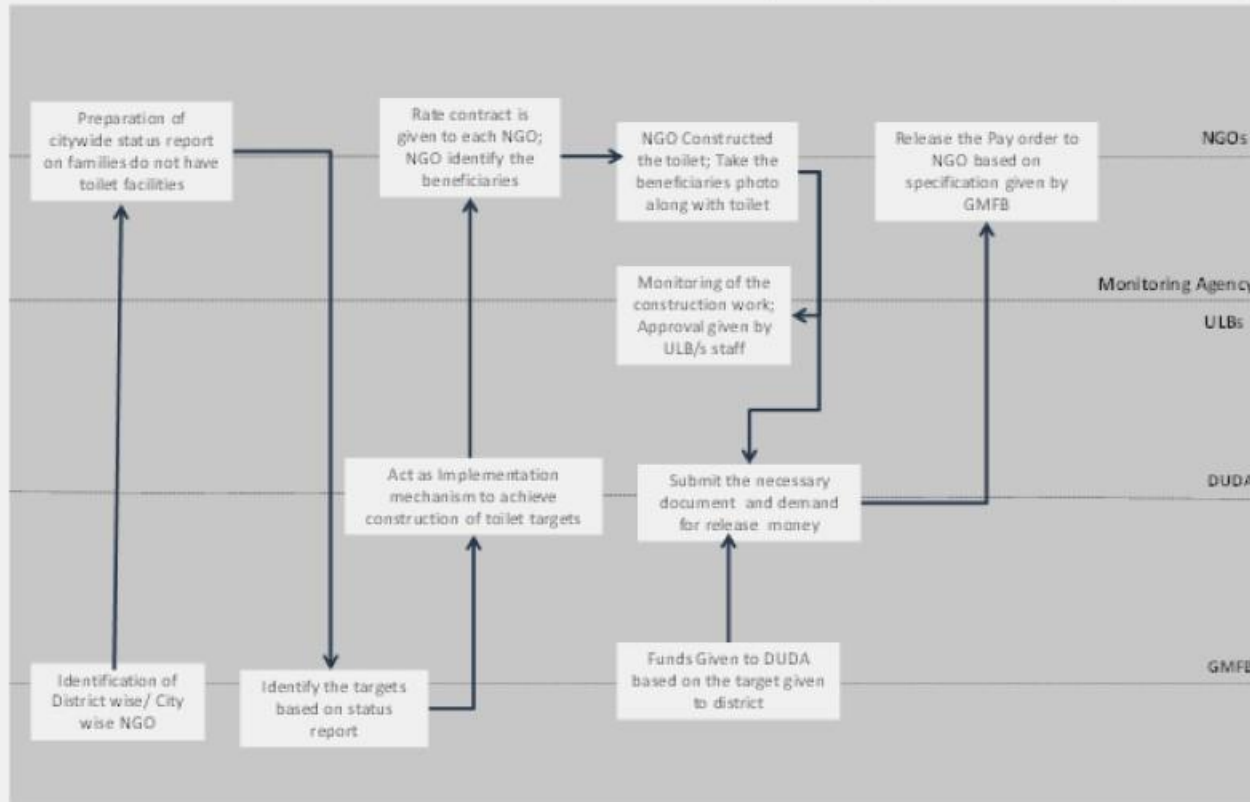
Output Based Aid – OBA Approach



Toilet scheme as OBA, India

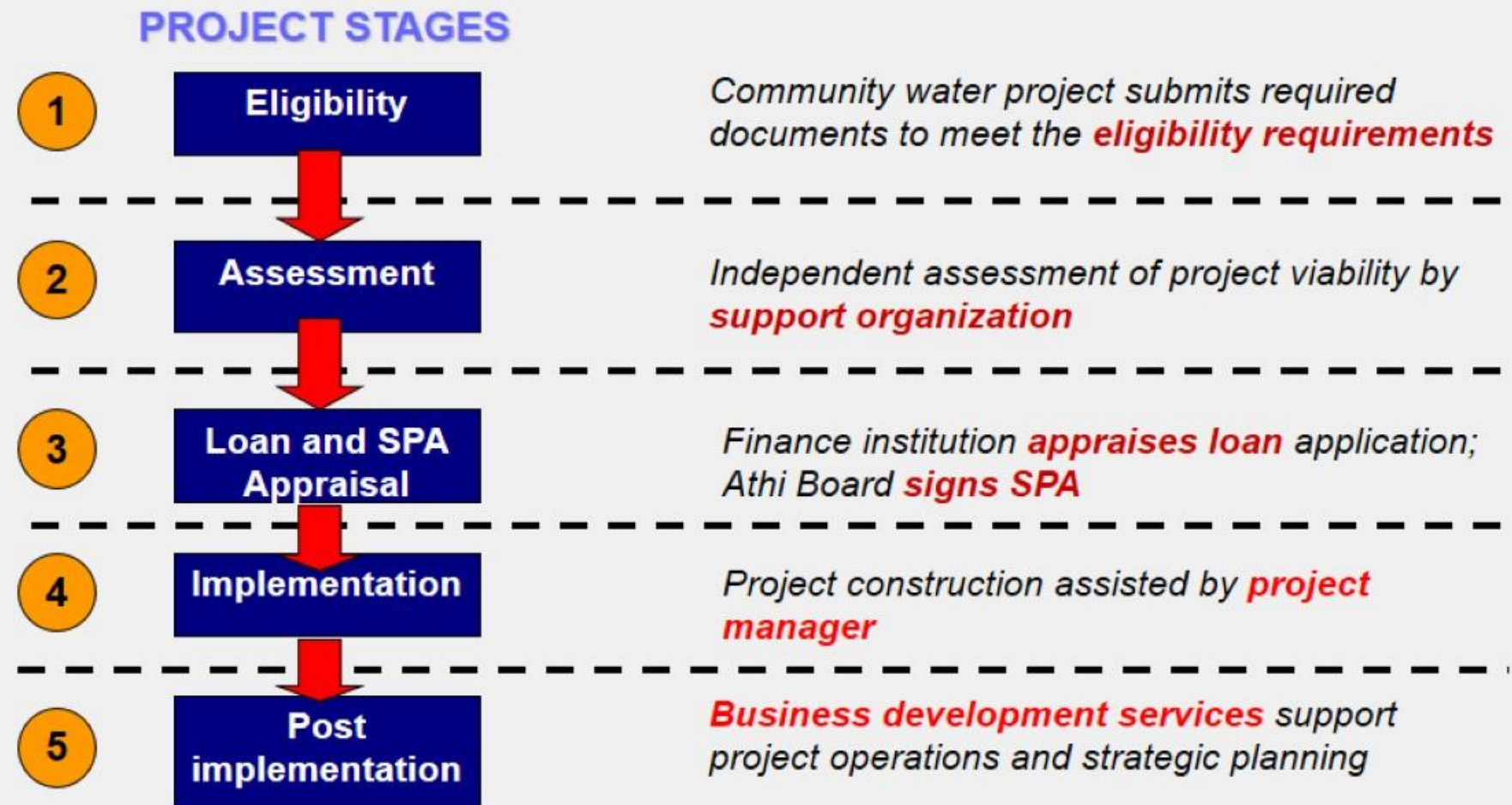
Nirmal Gujarat Sanitation Program

NGSP (GMFB) Toilet Scheme (2007-08)



Example of an OBA Project from Kenya – 1

Community Project Cycle (K-Rep Bank Kenya)



Example of an OBA Project from Kenya – 2

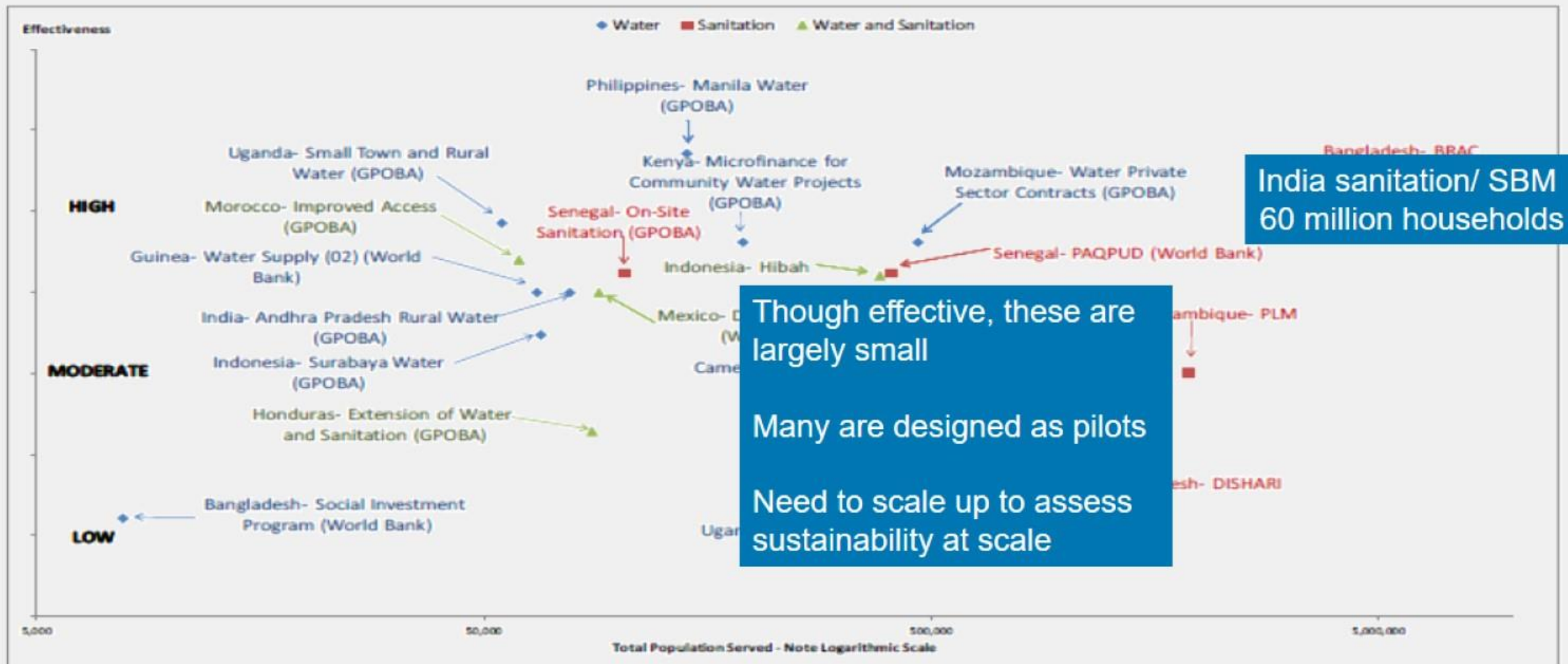
How was Microfinance used in Kenya?

Organization	During construction	After 'Outputs' are achieved
Community contribution	20%	20%
K-Rep Bank – loan	80%	40%
OBA subsidy	0%	40%
Total	100%	100%

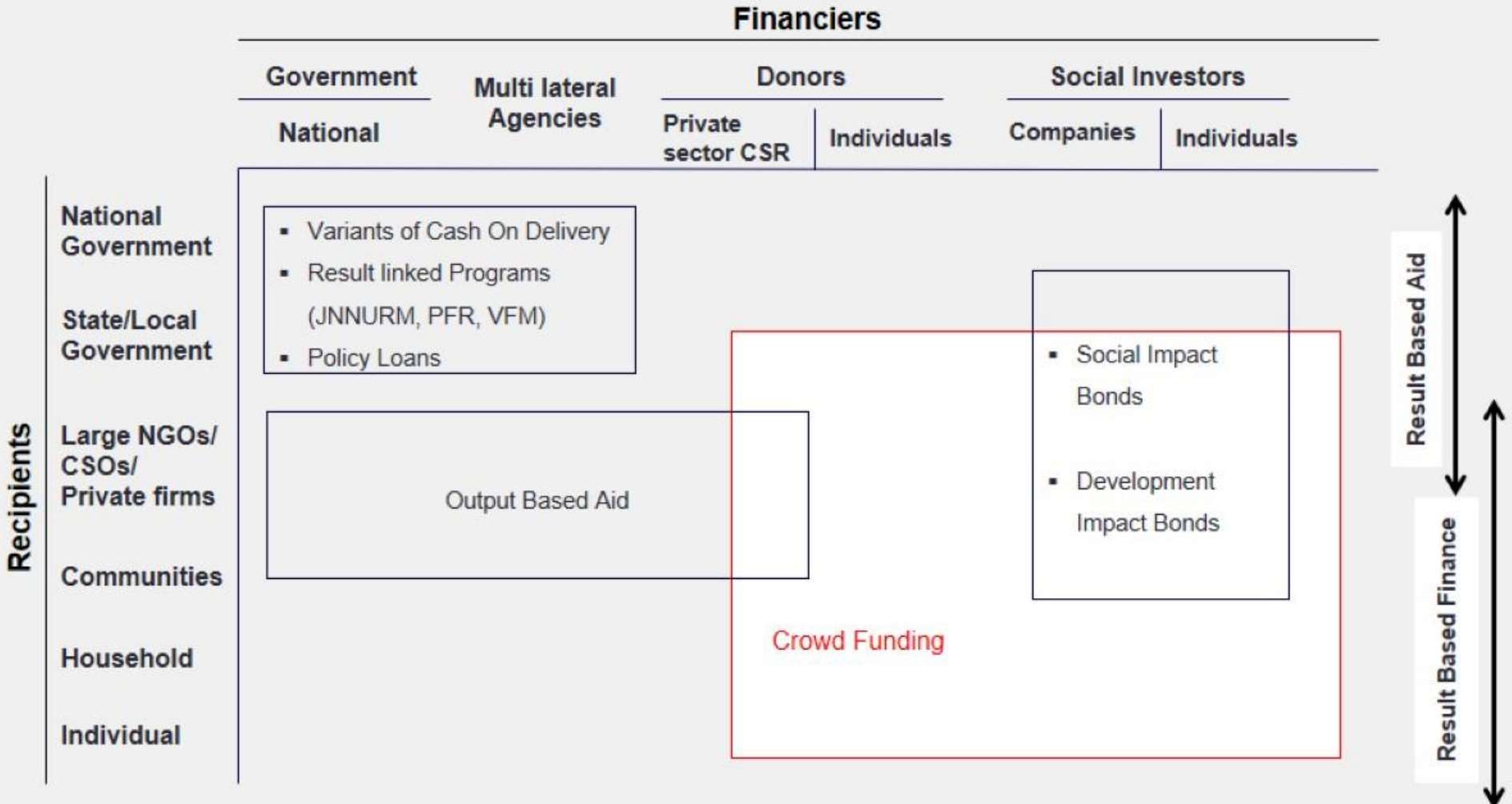
Source: Mehta Meera and Kameel Virjee (2007), "Microfinance for rural piped water services in Kenya", Policy Note, WSP Africa.

Scale and effectiveness of RBF/OBA in WASH sector

Figure 0.2: Scale and Effectiveness of RBF in WASH

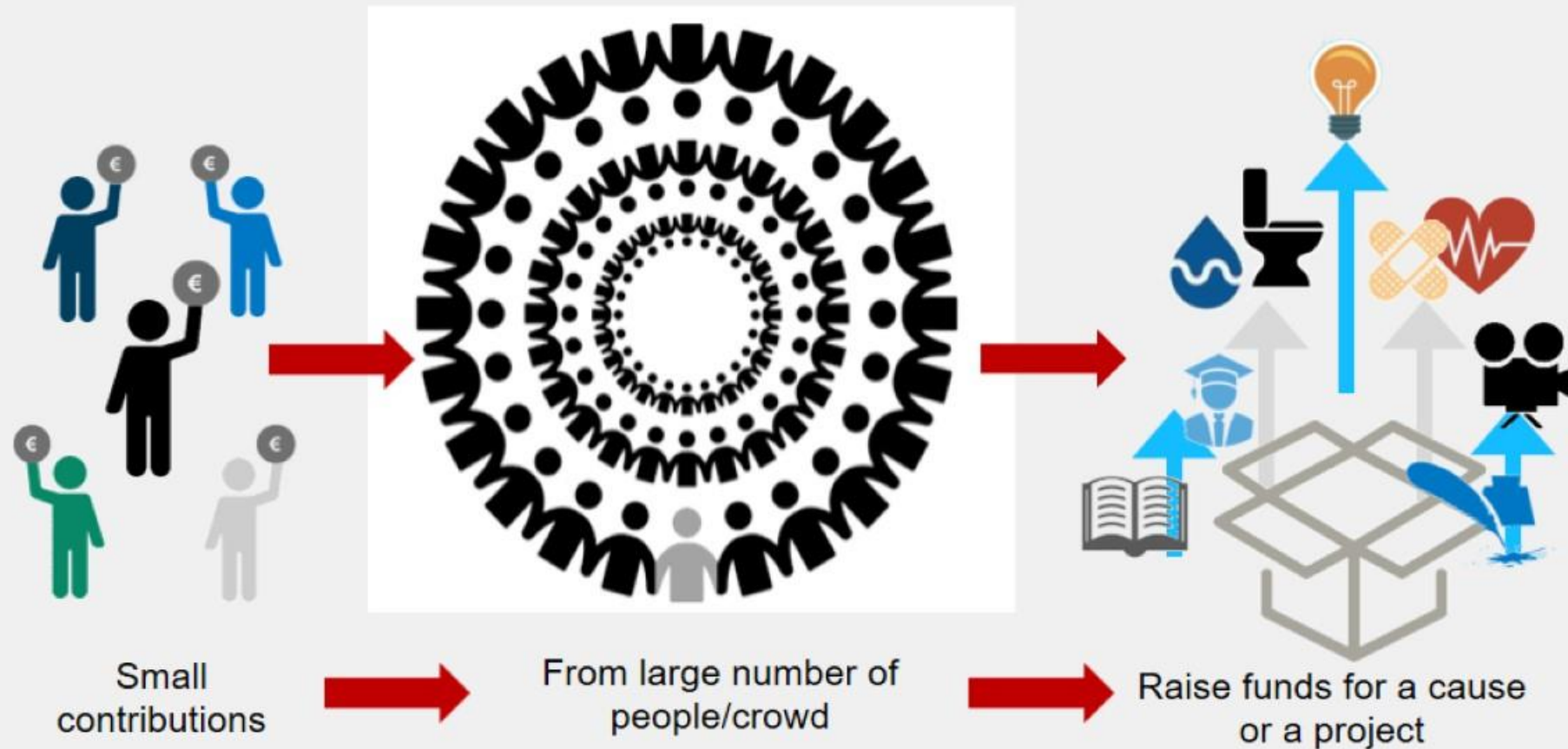


Innovative Financing – an overview



What is Crowdfunding?

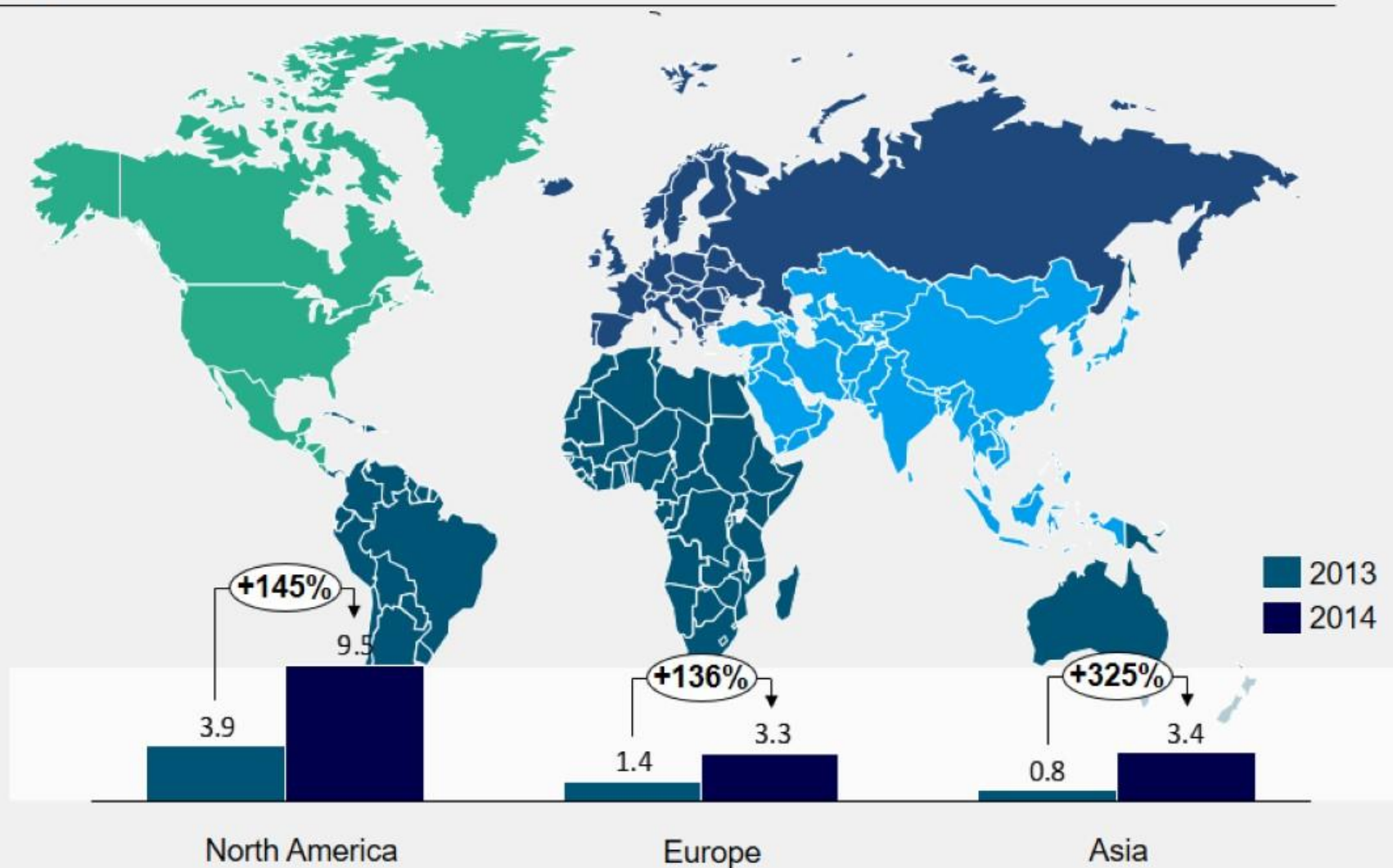
Crowdfunding platforms help connect a large number of individuals to contribute small amounts to support a cause or fund projects.



North America has the highest market size, Asia has the highest growth rate

Crowdfunding capital raised by geography

All figures in USD B, 2013-2014

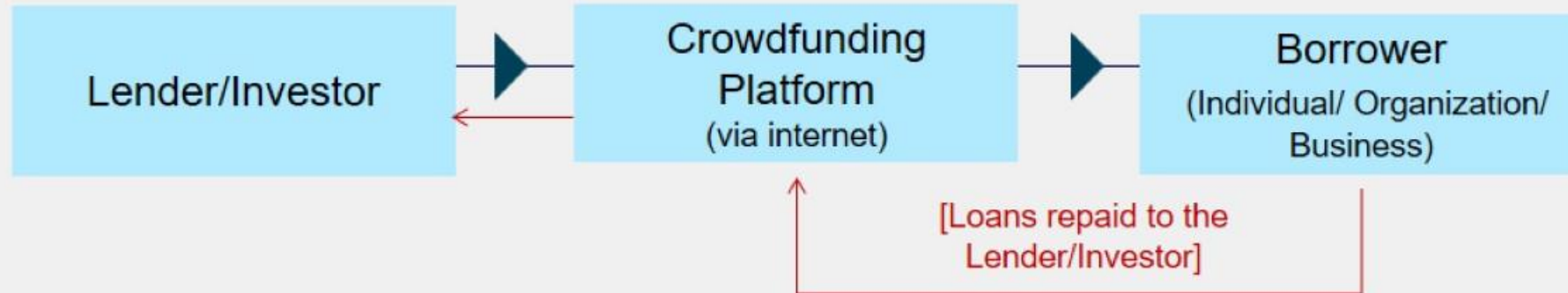


Types of Crowdfunding

Donation - based



Lending - based



Crowdfunding Models



Donation-based crowdfunding: funders donate without expecting monetary compensation, average funding sought (US\$) < \$10,000, e.g.: <http://Kickstarter.com>



Reward-based crowdfunding: funders receive a token gift of appreciation or pre-purchase of a service or product, average funding sought (US\$) < \$10,000, e.g.: <https://www.indiegogo.com/>



Lending-based crowdfunding: Funders receive a debt instrument that pays a fixed rate of interest and returns principal on a specified schedule, average funding sought (US\$) < \$50,000, e.g. <http://www.rangde.org>



Equity-based crowdfunding: Funders receive equity instruments or profit sharing arrangements, average funding sought (US\$) < \$250,000, e.g. <http://crowdfunder.com>

Spacehive – Transforming Public Spaces

- ✓ World's first funding platforms for civic projects
- ✓ Since Dec. 2011, platform to more than 240 civic initiatives in UK
- ✓ Hives - online hubs, bring local people and councils together
- ✓ Charges 5% fee (only when target is achieved)



Raised more than **792,000 pounds** to build a multi-purpose, energy efficient community center



Raised **36,850 pounds** to provide free access to Wi-Fi for visitors to Mansfield Town



Till now raised **40,800 pounds** for turning derelict flyover into urban park, backed by City Council

Crowdfunding for School Sanitation, Sinnar, Maharashtra



India's largest crowdfunding site. Over Rs.315.2 Crores raised.

Donate now

Share

Support Toilets for Children in Zapwadi School

100
Shares



Share on Facebook



Rs.428,729

raised of Rs.400,000 goal

72 Supporters

0 Days to go

₹

500

Donate now

Payment options: Online, cheque pickups

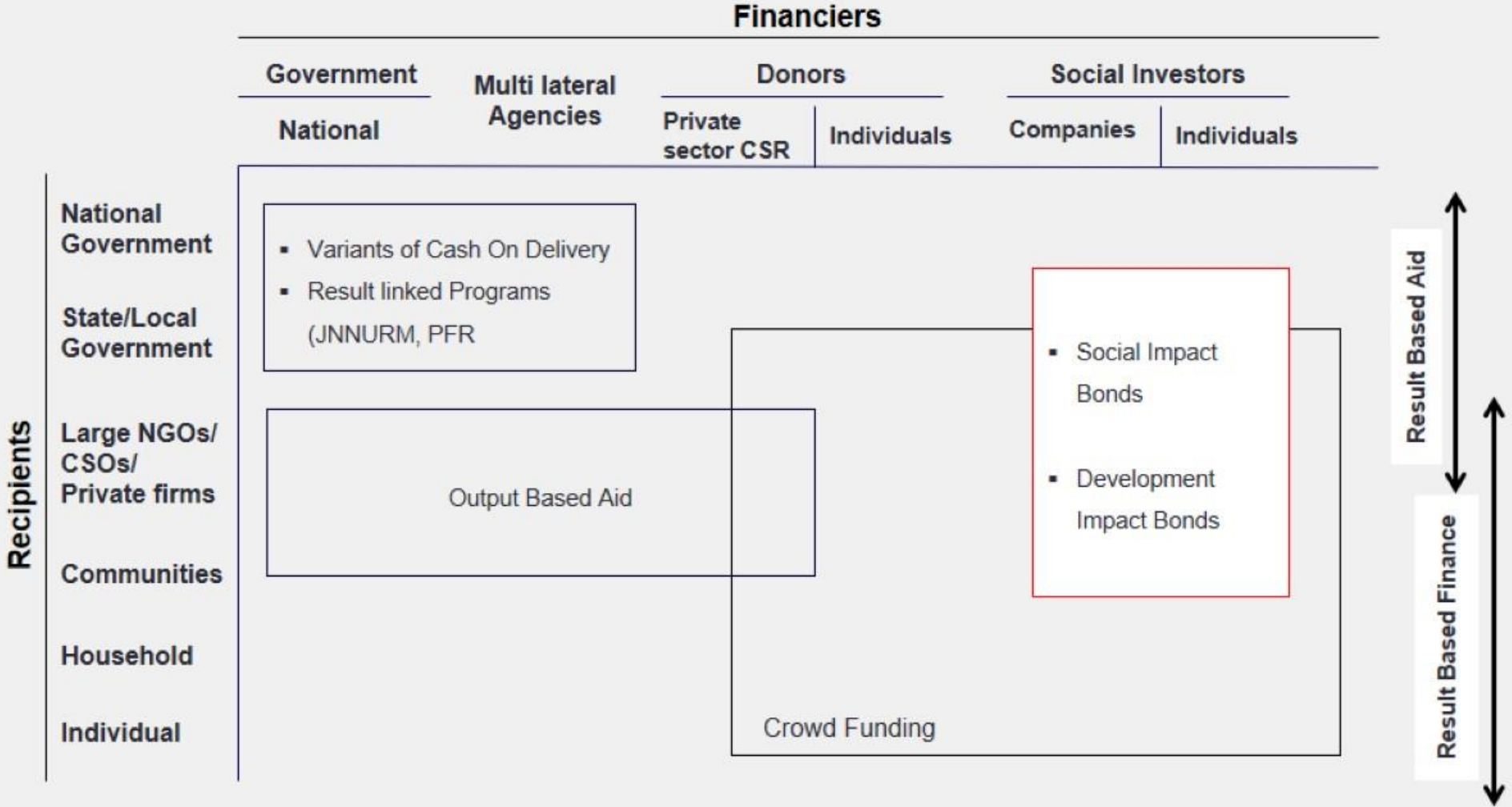
Campaign Organizer –
Center for Water and
Sanitation, CEPT
University

Beneficiary – Students
of Zila Parishad School,
Sinnar, Maharashtra

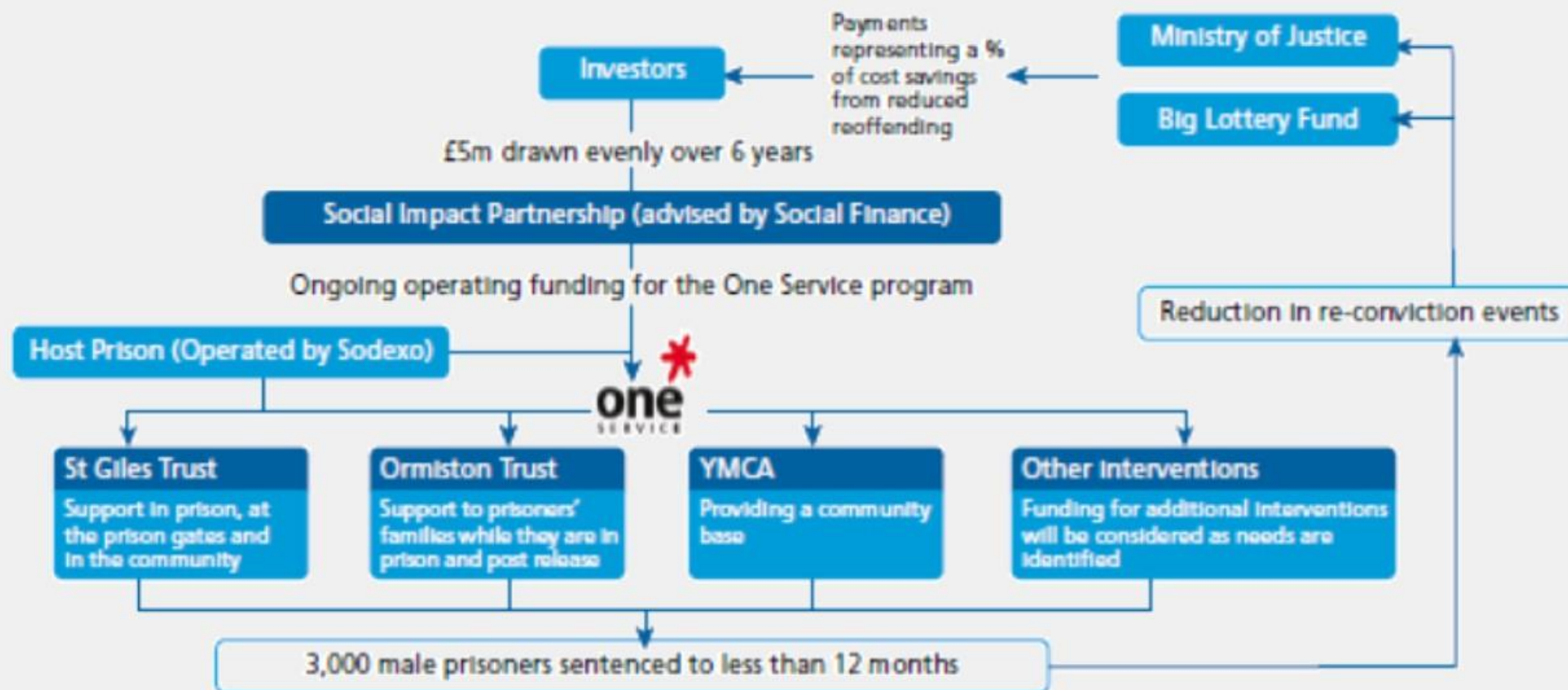
Purpose – Construction,
refurbishment and
operation and
maintenance of toilets.

Funds Raised – Rs
428,000 (USD 6700) in
2 months

Innovative Financing – an overview

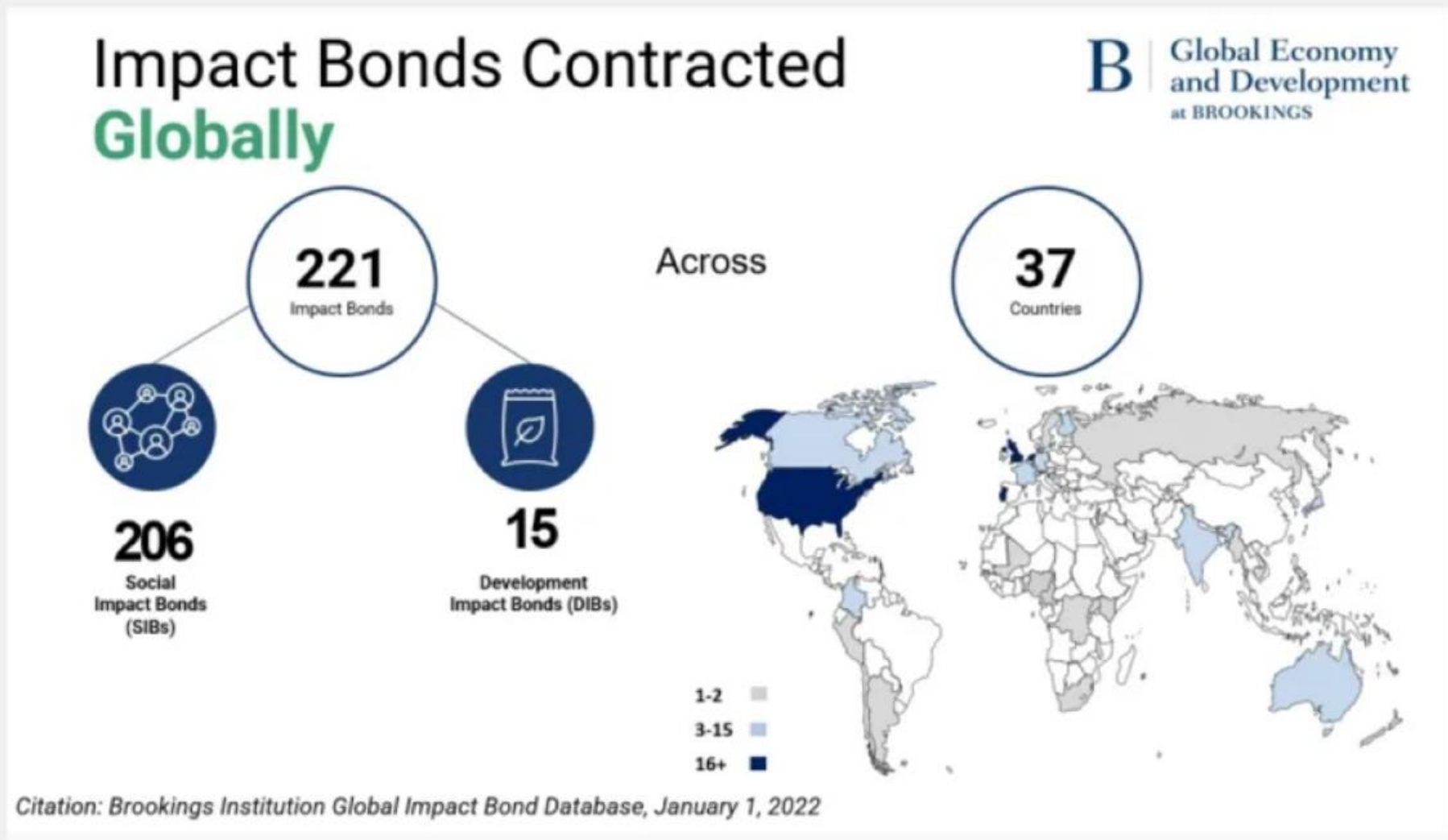


Peterborough – SIB for prison improvements



The first SIB in the world!!

SIBs and DIBs have been used in developed countries as well as developing countries to generate investment for a range of social issues

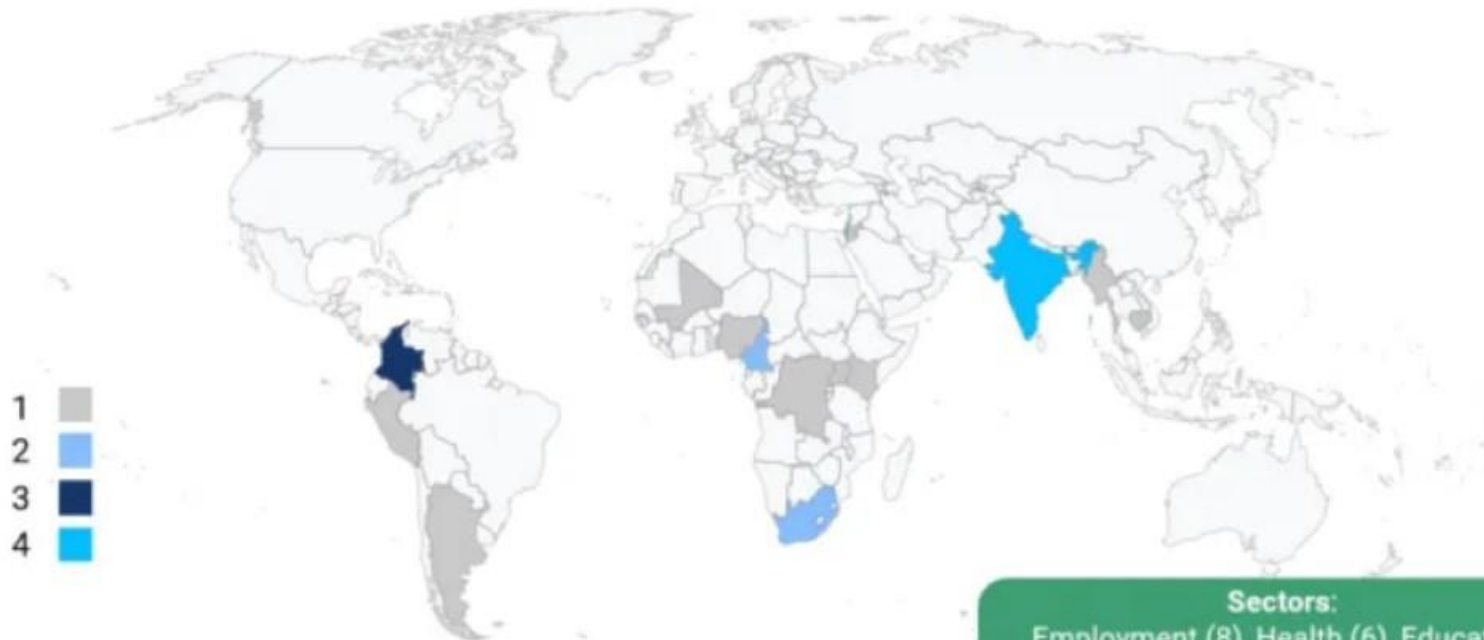


Significant spread of Social and Development Impact Bonds across the world

SIBs and DIBs in developing countries in social sector

21 Impact Bonds in Developing Countries

B | Global Economy
and Development
at BROOKINGS



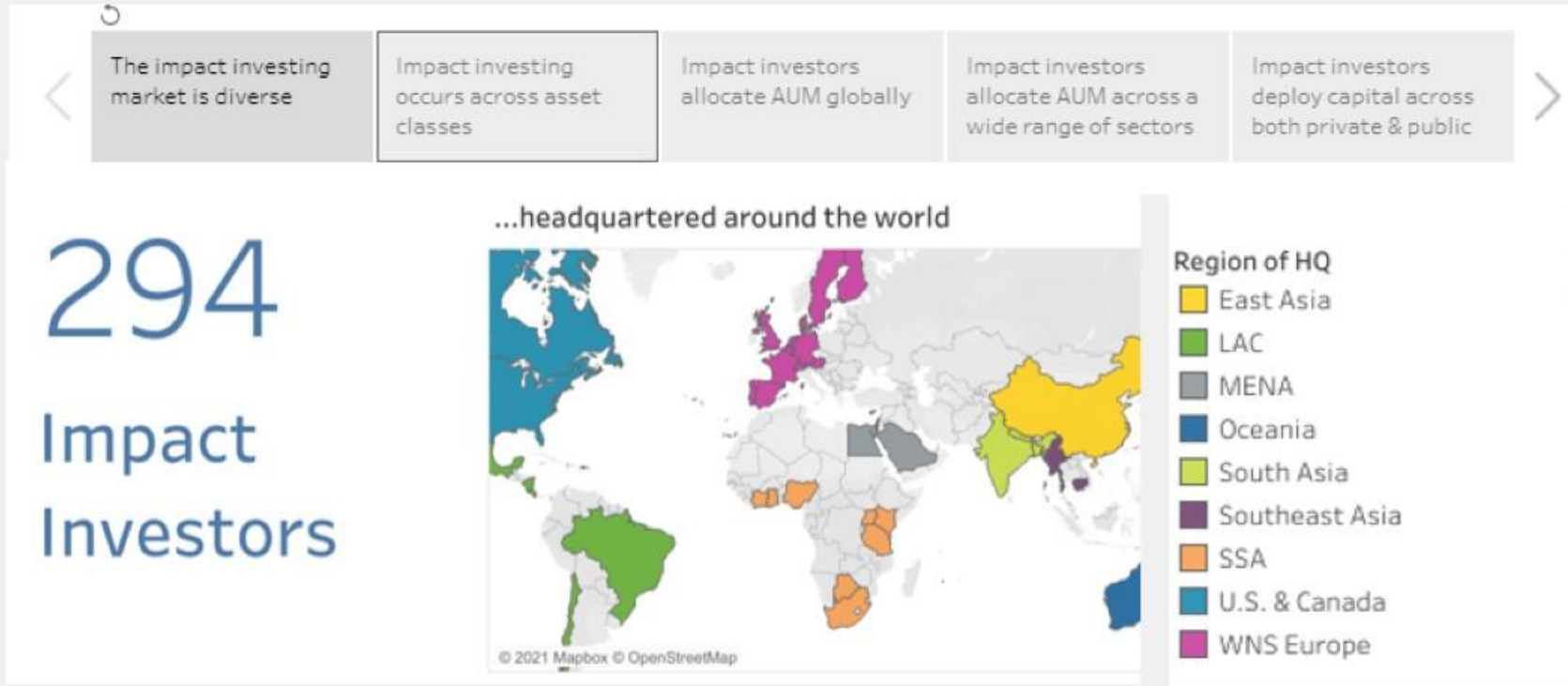
There are 14 DIBs and 7 SIBs in LMICs. There is an additional DIB in Chile, a high-income country. Argentina was reclassified as a middle-income country in 2019.

Citation: Brookings Institution Global Impact Bond Database, January 1, 2022

Sectors:
Employment (8), Health (6), Education
(3), Social Welfare (2), Agriculture &
Environment (2)

Significant
spread of
Social and
Development
Impact Bonds
in developing
countries..

The impact industry remains diverse across the globe and has grown over time!

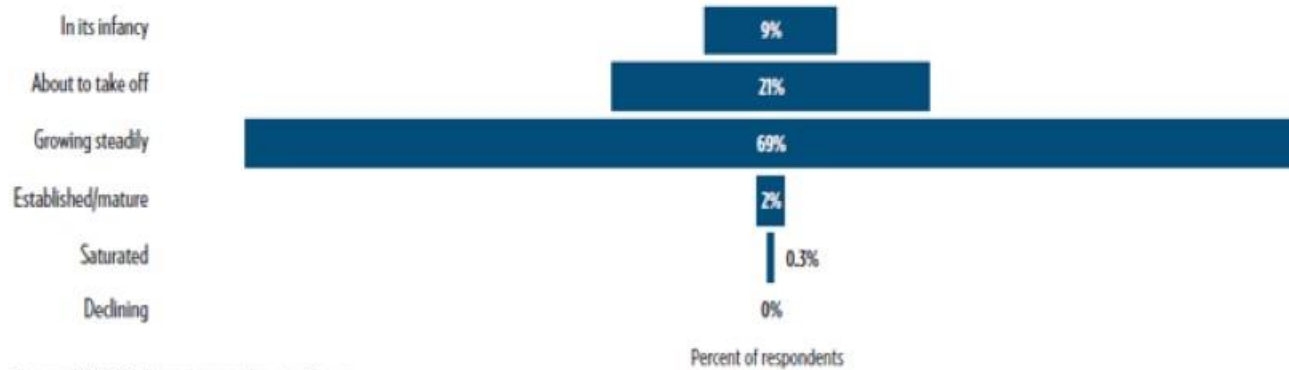


- According to the GIIN Annual Impact Investor Survey, respondents set their impact performance goals, **60% target both social and environmental impact in their investments.**
- There is **broad use of the SDGs** with **73% using this framework** for at least one measurement and management purpose.
- On average, respondents target eight different SDG-aligned impact themes, reflecting the diversity of their impact goals.

Impact investing has grown in depth and sophistication over time

Figure i: Stages of industry evolution

n = 290; optional question.



Source: GIIN, 2020 Annual Impact Investor Survey

- The majority of impact investors consider the impact investing industry to be 'growing steadily'..
- Over time, impact investments across asset classes in private markets have generated strong realized returns.

- By sector, repeat respondents grew their capital allocation most quickly to water, sanitation, and hygiene (WASH), at a CAGR of 33% from 2015 to 2019 and to financial services (excluding microfinance) at a CAGR of 30%. Half of respondents of GIIN survey plan to increase the volume of capital allocated to WASH over the next five years.

Table vi: Changes in sector allocations among repeat respondents (2015 – 2019)

n = 79; figures in USD millions.

Sector	2015	2019	CAGR
WASH	3,083	9,735	33%
Fin services (excl. microfinance)	5,667	16,432	30%
Healthcare	2,405	5,590	23%
Food & ag	3,746	8,284	22%
Energy	9,007	19,077	21%
ICT	1,198	2,058	14%
Infrastructure	1,144	1,818	12%
Housing	4,238	6,322	11%
Microfinance	9,525	13,439	9%
Manufacturing	1,667	1,356	-5%
Education	1,695	1,257	-7%
Arts & culture	142	52	-22%
Other	8,298	12,063	10%
Total	51,817	97,483	17%

Note: The 2016 survey included a category for 'conservation,' which was not included in the 2020 survey, and the 2020 survey included a category for 'forestry & timber,' which was not available in the 2016 survey. Both categories have been combined with 'other' for this analysis.

Impact investors hold a positive outlook for the future, despite headwinds..

- A cornerstone of impact investing is the ability to translate intention into impact results. **Impact measurement and management (IMM)** practices have evolved over the past decade and now reflect an increasingly **strategic use of tools** for different purposes at different stages of the IMM cycle.
- Despite their maturation, respondents still identify opportunities for greater development of these practices, especially concerning the **comparison and verification of impact results**.
- The most commonly used IMM resources are the **SDGs (73%)**, the **IRIS Catalog of Metrics (46%)**, **IRIS+ Core Metrics Sets (36%)**,¹¹ and the **Impact Management Project's five dimensions of impact convention (32%)**.
- Investors remain relatively positive about their prospective performance despite the effects of the pandemic, sharing cautious optimism as they continue to forge ahead with priorities identified in the GIIN's *Roadmap for the Future of Impact Investing: Reshaping Financial Markets*.

Impact investing has become an important strategy in fund management, with profit meeting purpose...

- **Impact investing** is an emerging field of **asset management** where investments are made with the intention of generating **positive, measurable social and environmental impact** alongside a **financial return**.
- The current market size of impact investing is estimated to be **US\$715 billion**, and managed by over **1,720 organisations**, based on 2020 investor survey by non-profit Global Impact Investing Network (GIIN)

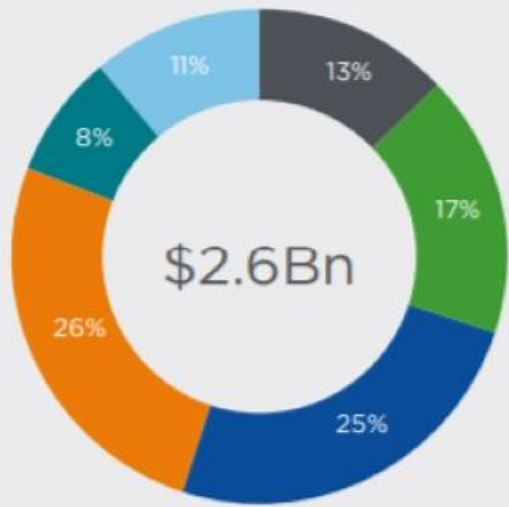
Aligning making money with making impact

Impact investment could wield positive influence in the region's infrastructure plans. Southeast Asia needs US\$2 trillion worth of investments over the next decade to build sustainable infrastructure that can help cut down the region's greenhouse gas emissions.

A hallmark of impact investing is the commitment of the investor to measure and report the social and environmental performance and progress of underlying investments, ensuring transparency and accountability while informing the practice of impact investing and building the field

Investments are needed in renewable energy, electric vehicles and waste management projects.

Major impact investments in education sector in 2020

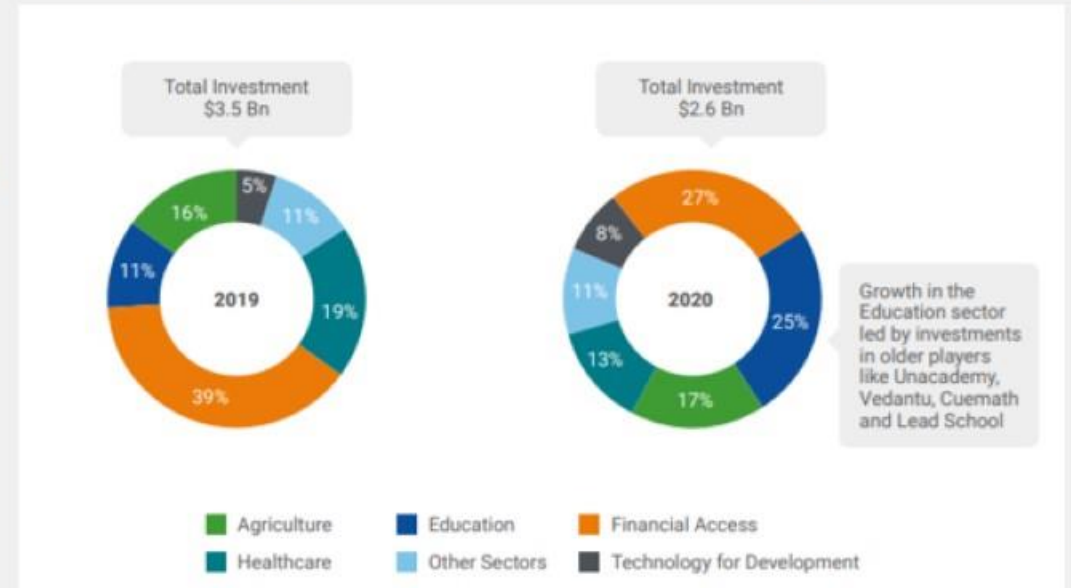


- Agriculture
- Education
- Financial Access
- Healthcare
- Other Sectors
- Technology for Development

2020 Investments by Sector

Impact enterprises received ~\$2.6BN in investment across 243 equity deals and saw 13 successful exits in the calendar year (CY) 2020

Volume in % of investments according to sectors:



Investors were most keen to back early-stage enterprises in agriculture, livelihoods and healthcare sector



Contribution to UN Sustainable development goals: Impact investing has contributed towards 11 of the 17 Sustainable Development Goals and enterprises focused on SDG 5 (Gender Equality) and SDG 9 (Industry, Innovation and Infrastructure) received the highest volume of investments in 2020.

Potential of impact investing globally!

How do we access this for sanitation in India ?

Exhibit 2: Assets under Management (AUM) for impact investors in USD million deployed by year (additions and cumulative) – Global

74 per cent additional AUM from impact capital projected to be deployed by 2020

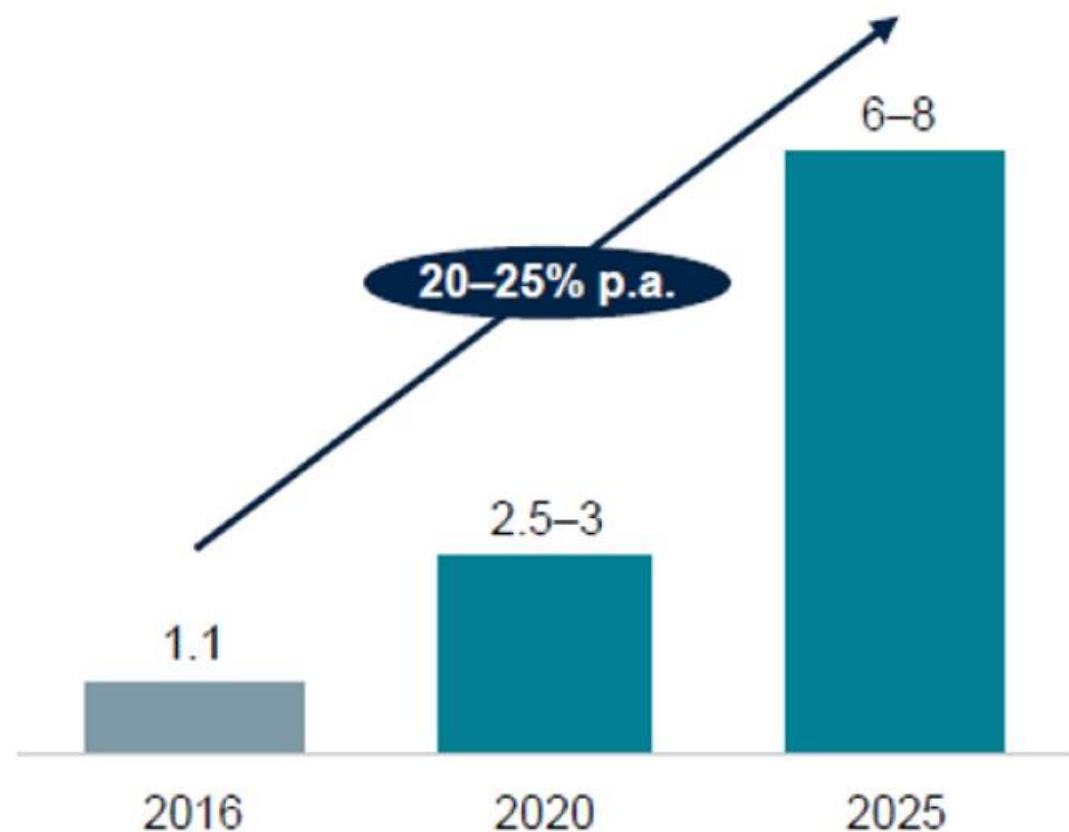


Source: GIIN Annual Impact Investment Survey reports 2013-2018, KPMG in India's analysis 2018 based on approach outlines elsewhere in this report

Impact investing in India has the potential to grow six to eight times by 2025, as per McKinsey analysis

Potential growth for impact investing in India

Annual investments, US\$, billion



SOURCE: IBEF, Press search; McKinsey analysis

Growth drivers



- **Large unmet** social needs
- **Strong** forecast growth of Indian social sectors
 - 23-25% in microfinance
 - 24-26% in clean energy
 - 22-24% in healthcare
 - 7-9% in education
- 29% historical global growth

Source: McKinsey & company (2017), "Impact Investing finds its place in India", September

SIBs /DIBs involve a commitment from government /donors to support successful social outcomes

- A contract with donors to pay for an improved social outcome leading to long term savings for the donor
- Initiated in 2010 in the U.K, the application of SIBs has now expanded to many projects in both developing and developed countries

Process of Social impact bonds

Commitments of funds by donors

- A coalition of donors/government agencies commits to pay a specified amount to a trust if the proposed project achieves targets

Mobilizing capital from social investors

- Social investors make upfront payment to the trust to execute the proposed project

Project execution

- The resources are forwarded to an executing company which carries out the proposed activities intended to benefit the end stakeholders

Independent assessment

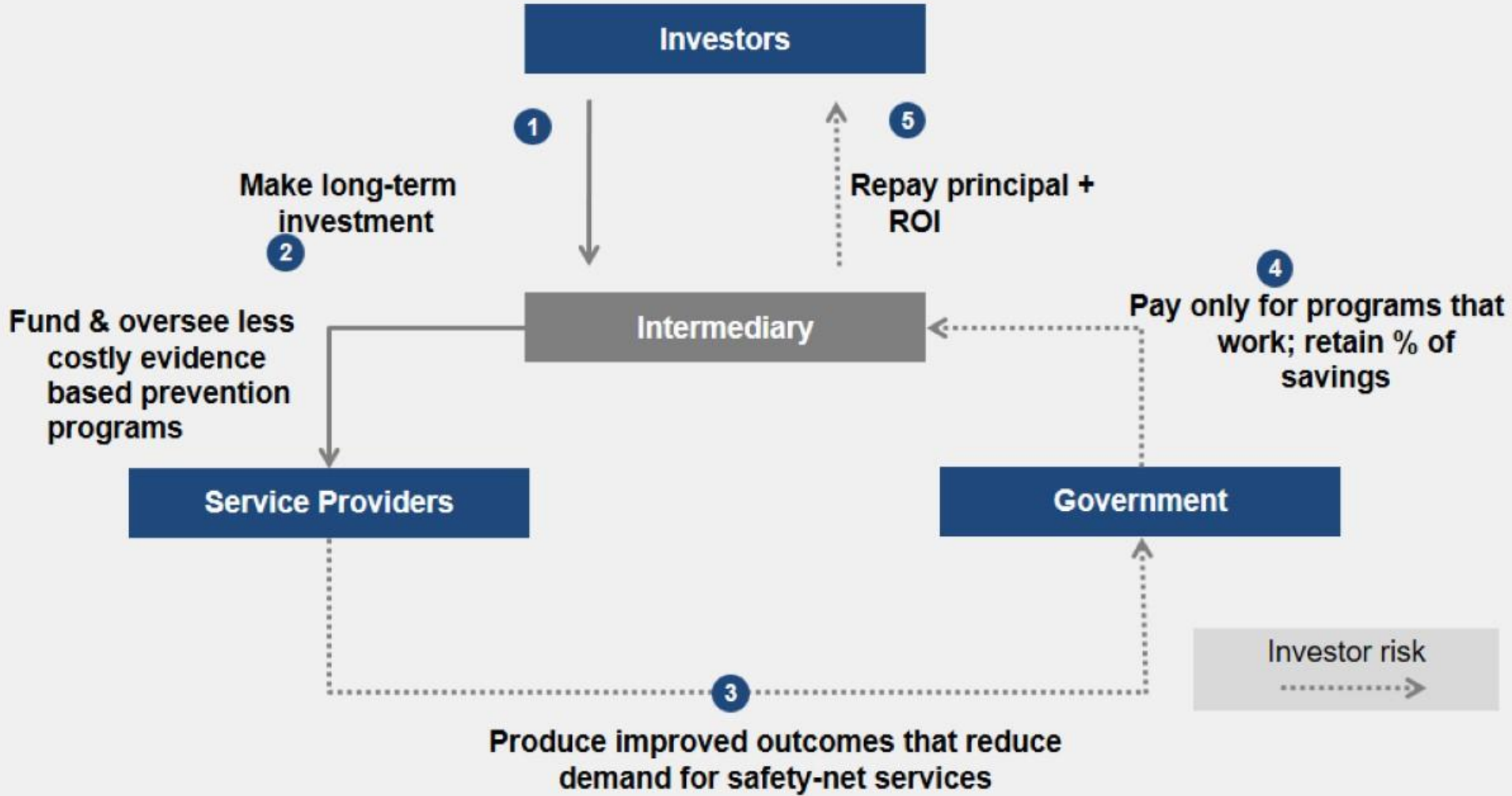
- An independent assessment of the project is carried out to measure the outcomes against time bound targets to inform the stakeholders about the status and impact of the project

Disbursal of funds

- If the project meets its targets, the donor coalition releases the funds to the trust which pays back the social investors along with promised returns
- If the targets are not met then investors only receive part payment hence suffering a loss on investments

Social Impact Bond Mechanics for Investments and Service Delivery

Illustration – Social Impact Bond Mechanics



Source Adapted from Social Finance (2012), "A new tool for scaling impact: How social impact bonds can mobilize private capital to advance social good", supported by Rockefeller Foundation. figure 1. p.12

Why a Development Impact Bond?

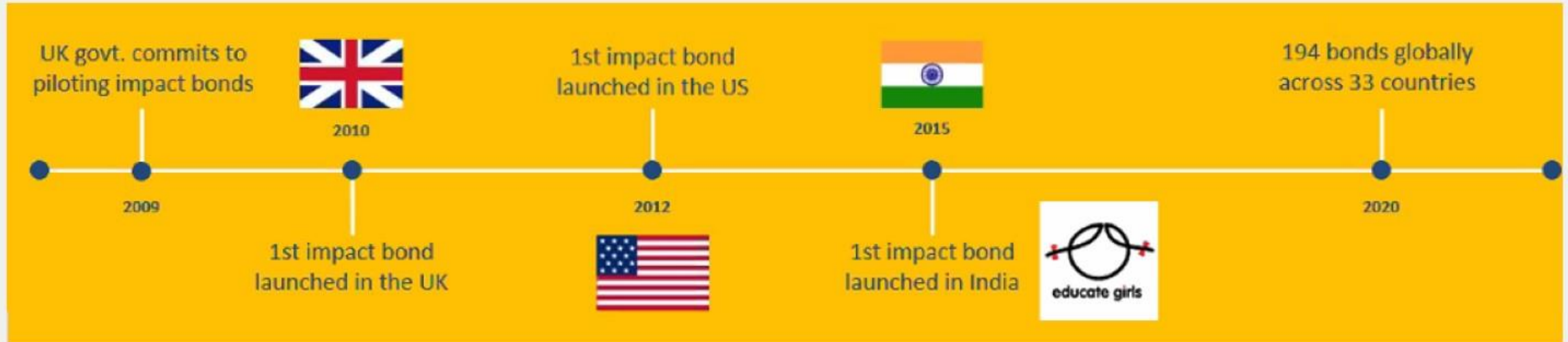
DIB is an innovative financing tool that: a) focuses on outcomes; b) ensures proper monitoring systems, c) fosters collaboration among different partners, and d) attracts social impact investors.



Emergence of Development Impact Bonds?

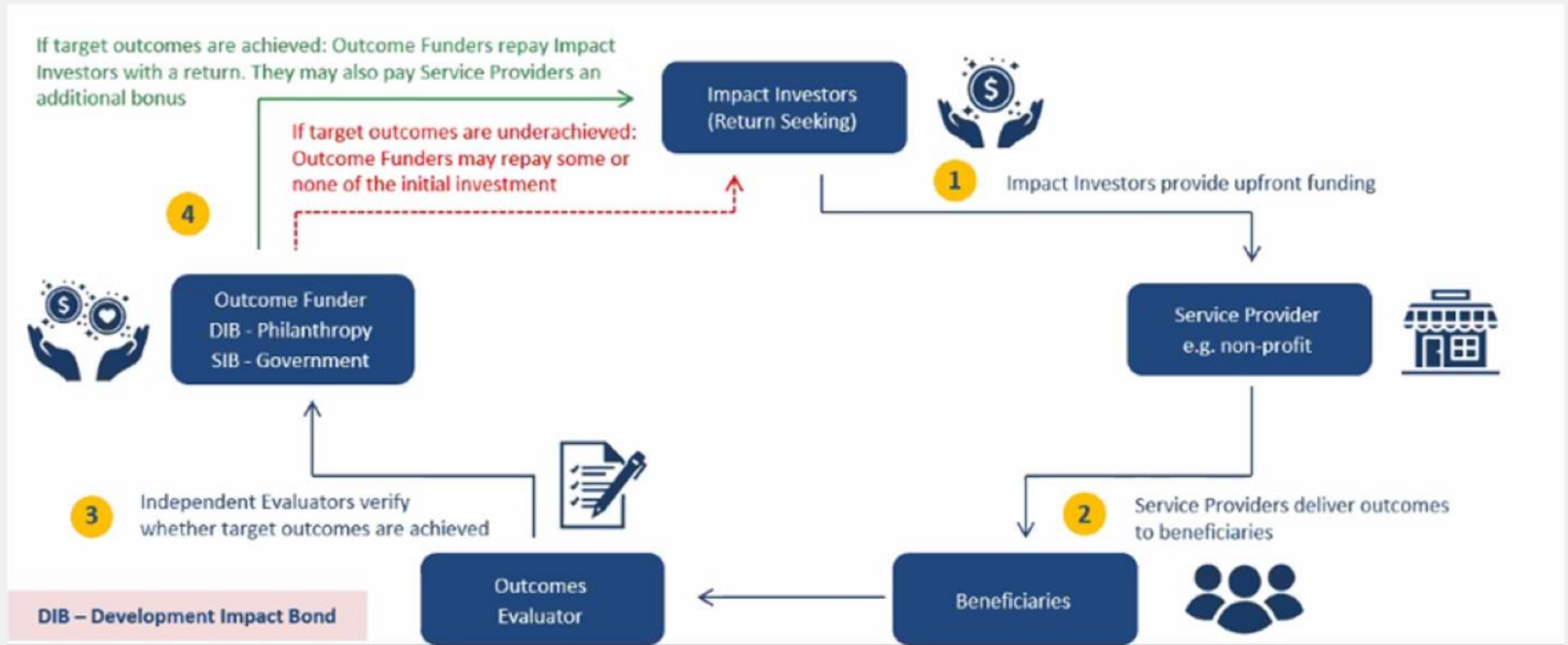
- **Traditional approaches focus on inputs rather than outcomes** leaving little room for innovation. Often **projects in development sector struggle to attract enough and flexible funding** to scale-up social viable services, even if the delivery of such services can potentially generate a profit.
- **Development Impact Bonds (DIBs)** help finance development programs with funding from private investors who earn a return if the program is successful. Development impact bonds attract socially motivated private investors for development projects.
- With greater focus on outcomes instead of inputs, **DIBs create space for more innovation, local problem-solving, and adaptation.**
- Impact bonds have been used in developed countries as well as developing countries to generate investment for a range of social issues.

Impact bonds are also known as pay for success contracts



Development Impact Bond – structure

In a Development Impact Bond model, an investor (or group of investors) provides up-front financing for the operations of a service provider, receiving a return from the outcome payer (usually a government or donor) once results have been achieved.



ADB has launched different theme bonds for sustainable development..



Education

Education Bonds **improve access to, and the quality** and relevance of, education and training, and amplify the returns to students and the workforce

161 \$ million total bonds issued



Water

Water Bonds support projects under the **Water Financing Program** and highlight ADB's efforts to address water and sanitation security needs in Asia and the Pacific, including **water supply, sanitation, water resources management, and water-related disasters.**

1,708 \$ million total bonds issued



Health

Health Bonds **tackle health challenges in Asia and the Pacific.**

644 \$ million total bonds issued



Gender

Gender bonds **promote gender equality and the empowerment of women.**

2,052 \$ million total bonds issued

As of 30 June 2021. Source: Asian Development Bank.

The projects funded by theme bonds are aligned with the Sustainable Development Goals (SDGs) adopted by the United Nations on quality education, gender equality, clean water and sanitation, and good health

ADB launched its first theme (water) bond for sustainability in 2010, in response to its investor base to highlight key initiatives

- The Asian Development Bank (ADB) launched its **first theme bond (water)** for sustainable development in 2010, in response to a growing demand among its investor base to highlight key initiatives.
- Since launching the water bond, ADB has expanded its theme bond offerings to include **health, gender, and, most recently in 2021, education bonds.**
- The projects funded by theme bonds are aligned with the Sustainable Development Goals (SDGs) adopted by the United Nations on quality education, gender equality, clean water and sanitation, and good health.



Health bonds tackle health challenges in Asia and the Pacific.

Philippines: Health System Enhancement to Address and Limit COVID-19 ADB



Education bonds improve access to, and the quality and relevance of, education and training, and amplify the returns to students and the workforce.

India: Madhya Pradesh Skills Development Project



Gender bonds promote gender equality and the empowerment of women.

Fiji: Sustained Private Sector-Led Growth Reform Program (Subprogram 3)



Water bonds support projects under the Water Financing Program and highlight ADB's efforts to address water and sanitation security needs in Asia and the Pacific, including water supply, sanitation, water resources management, and water-related disasters.

Georgia: Sustainable Water Supply and Sanitation Sector Development Program

Development Impact Bonds in India

- In June 2014, Instiglio, Children's Investment Fund Foundation (CIFF), Educate Girls and UBS Optimus Foundation launched the first DIB to reduce the gender gap in education in Rural India by getting girls into school and learning.
- UBS is providing an investment to an Indian NGO, Educate Girls. After three years, CIFF (the outcome payer) will pay based on enrolment and learning outcomes. UBS Optimus Foundation stands to receive their initial investment back plus a return on investment based on the performance of the program.
- Efforts are now being made to develop models to use the Corporate Social Responsibility (CSR) funds. Overall, there is also an attempt to use simpler structures, reduce development and administration costs, also a move towards reducing the high monitoring costs.
- However, there is no DIB for sanitation in India. In Sanitation, globally there is only one impact bond in Cambodia. The Cambodia DIB for sanitation was developed in November 2019 to make 1,600 villages open defecation free. This DIB focused mainly on toilet construction in six provinces of Cambodia.

Success of DIBs in education and healthcare in India

THE EDUCATE GIRLS DEVELOPMENT IMPACT BOND: A NEW FINANCE MODEL FOR INTERNATIONAL DEVELOPMENT



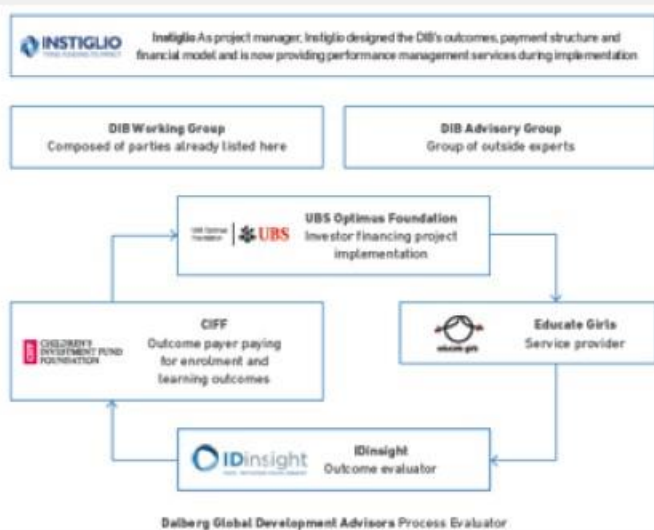
THE UTKRISHT IMPACT BOND.

IMPROVING MATERNAL AND NEWBORN HEALTH CARE IN RAJASTHAN, INDIA

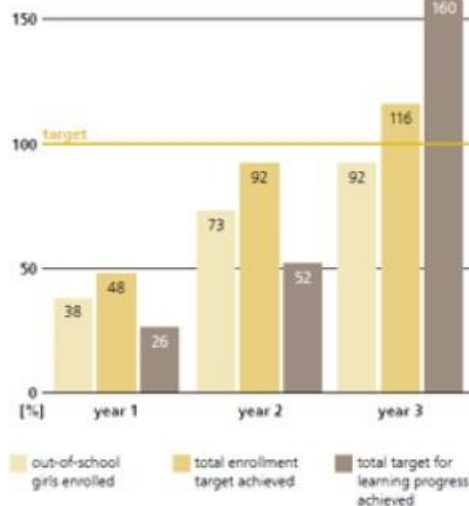
- Funded by the UBS Optimus Foundation, with USAID and MSD as outcome payers or Mothers for three-year-long programme of **USD 3 million**
- Targeting quality of care in 440 private healthcare facilities to positively impact 600,000 pregnant women in Rajasthan.

- **DIB of USD 267,000** - Three-year intervention focusing on **improved learning outcomes and enrolment numbers for out-of-school girls.**
- It targeted 18,260 school-going children in the Bhilwara district of Rajasthan.

Contract structure



Outcome



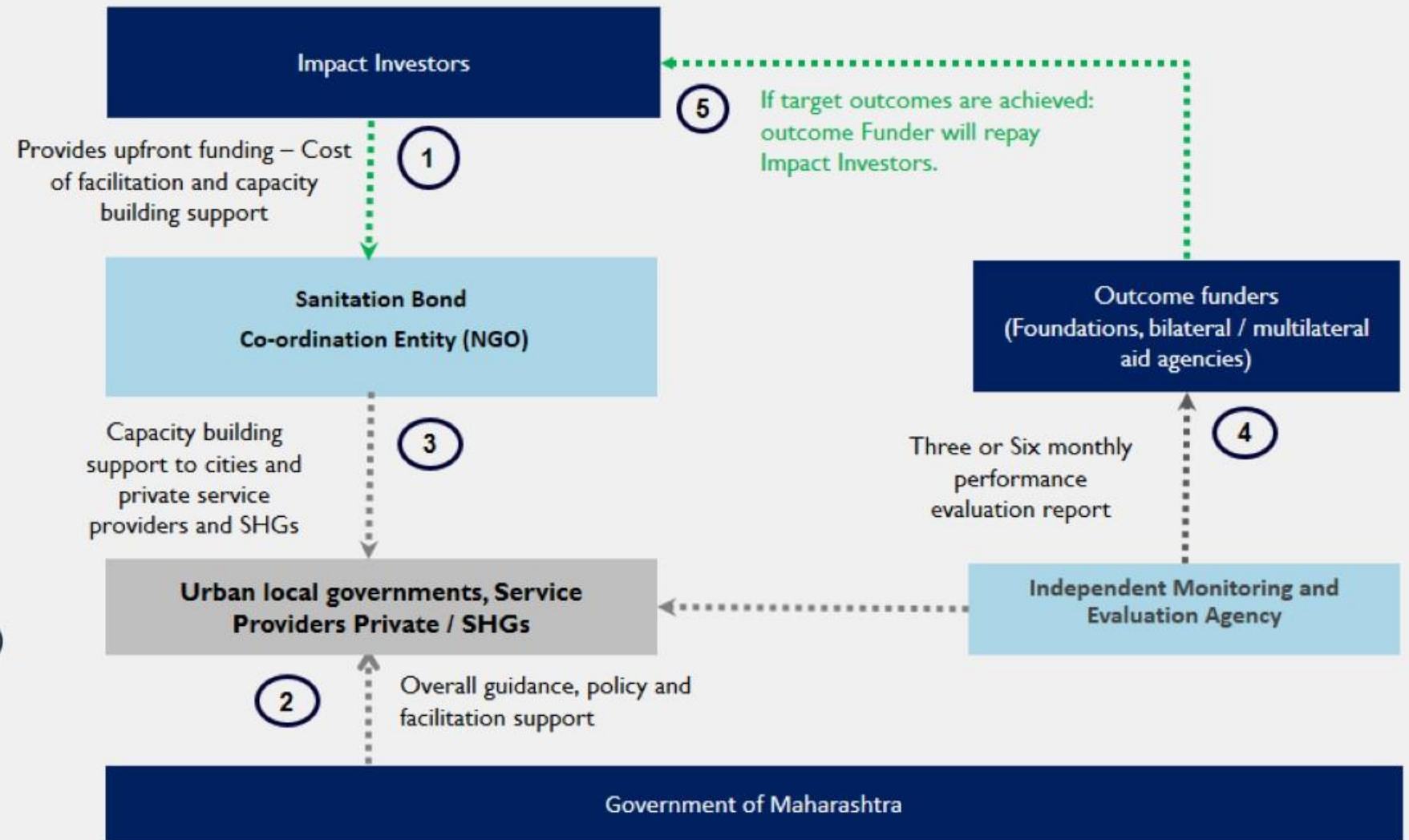
Success outcome
If these **healthcare facilities are ready to achieve the new certification standard** developed by the NAB of Hospitals and Healthcare Providers and the FOGSI.

Success of DIBs in education and healthcare in India

Impact bonds details	Educate Girl DIB	Utkrisht DIB	Quality Education DIB	Haryana Early Literacy bond
Target Sector	Primary Education	Maternal and Newborn Healthcare	Primary Education	Primary education
Objective	<ul style="list-style-type: none"> Improve enrollment of girls in grade 2-8 Improve Learning for ~18K boys and girls in Grade 3-5 	Support up to 444 private facilities to achieved and sustain a standard of quality that will result in decreased maternal and newborn mortality	Improvement in numeracy and literacy learning of ~3,20,000 students	Language and Learning Foundation's evidence-based program to 115,000 children in 3,330 schools across 7 districts in Haryana
Partners	<ul style="list-style-type: none"> Service Provider: Educate Girls Impact Investor: UBS Optimus Foundation Outcome funder: Children's Investment Fund Foundation Outcome Evaluator: ID-Insight 	<ul style="list-style-type: none"> Service Provider: HLFPPT, PSI Impact Investor: UBS Optimus Foundation Outcome funder: MSD for Mothers, USAID Outcome Evaluator: Mathematica 	<ul style="list-style-type: none"> Service Provider: Gyan Shala, KEF, PIF & EI, SARD Impact Investor: UBS Optimus Foundation Outcome funder: MSDF, Comic Relief, Larry Ellison Foundation, and Mittal Foundation Outcome Evaluator: Gray Matters 	<ul style="list-style-type: none"> Service Provider: Language and Learning Foundation Risk Guarantor – Central Square Foundation Outcome funder: IndusInd Bank & SBI Capital Markets Outcome Evaluator: Educational Initiatives
Bond Size	0.4 M USD	9 M USD	11 M USD	2.3 M USD
Expected results	Achieved 160% of total learning target Achieved 116% of total enrollment target	Upto 600,000 pregnant women positively impacted upto 10,000 lives saved over a five year period	0.2 -0.4 SD per annum depending on intervention type	Students will have the fluency to read grade-level test by the end of Grade 11.

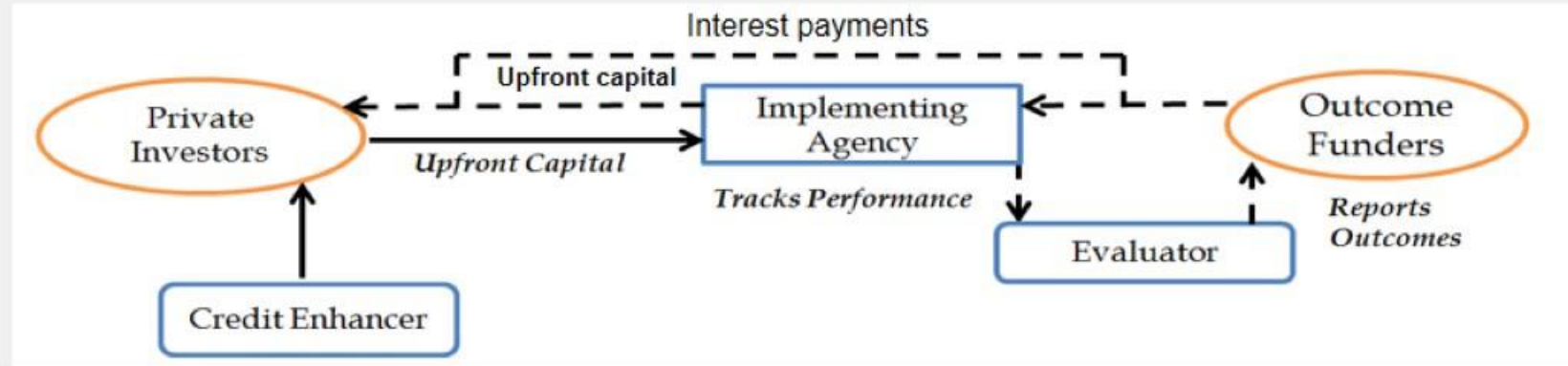
Proposed structure for an Urban Sanitation DIB

- **CWAS** partnered with **IPE Global** to develop the DIB structure and financing model.
- Based on a review of various DIBs in India, potential structures were developed for an urban sanitation bond, focused on **integrated FSSM services for cities in Maharashtra**. It was developed for measurable outcomes for: i) scheduled desludging, and ii) treatment. A number of options for DIB structure were developed and assessed.



DIB other models- Interest subvention

Development impact bond in form of interest rate subvention could be another form of DIB which could be explored where for-profit organizations are involved as an implementing agency.

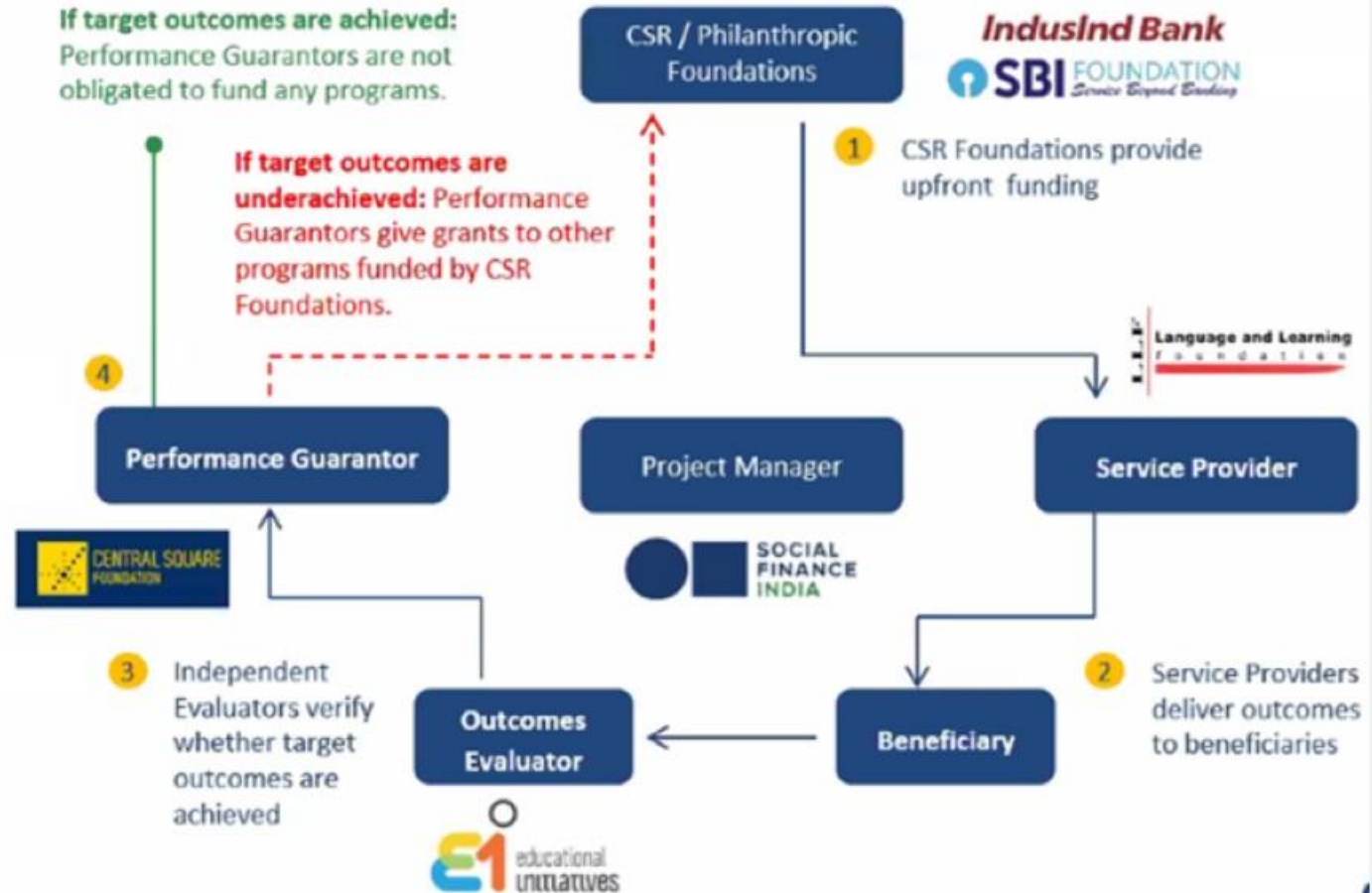


- In this DIB model, **investors will provide upfront working loans to for-profit implementing agency** and thereafter approach outcome funders to either waive off or reduce their interest rate/payment.
- An **independent Evaluator would track the performance of the Implementing** to quantify the impact and showcase progress of the Bond.
- **Outcome funders based on the feedback from the independent evaluator**, would serve the financial interest of the bond in case the implementing agency is a for-profit social enterprise. The for-profit social enterprise itself would be liable to pay back the upfront capital to the Private Investors.
- This may provide **access to funds for private enterprises**.

DIB other models- Using CSR funds

EXAMPLE: HARYANA EARLY LITERACY OUTCOMES DIB

Impact Bond Details	Haryana Early Learning Outcomes DIB
Target Sector	Early Grade Reading
Objective	Improving foundational language learning for 115,000 Class I and II students in 3300 government schools across seven districts in Haryana
Period of Performance	H2 2019 – H2 2022
Bond Size	~2.3M USD
Results / Expected Results	Students will have the fluency to read grade-level text by the end of Grade II



Difference between SIBs and DIBs

- What is the key difference between a Social Impact Bond and a Development Impact Bond?
- The Development Impact Bond is **almost exactly the same** as the Social Impact Bond.
- One key difference is **who repays investors if the program succeeds**. With a SIB the government does. With a DIB, payment would be made by a donor, a Foundation, a special Fund, or bilateral agencies such as Britain's Department for International Development or the U.S. Agency for International Development (USAID)

Social success note

Figure 2.1 What are Social Success Notes?



Step 1- A social enterprise acquires a loan at a discounted rate from a risk investor to sustain its business objectives

Step 2- An M&E partner verifies the achieved impact and reports it to the outcome payer

Step 3- The social enterprise repays the principal and interest to the risk investor

Step 4- The outcome payer offers incentives to the risk investor (4a) and social enterprise (4b) if the impact is achieved

•4b is optional and dependent on the outcome payer

- Risk investors offer loans at an affordable rate of interest.
- Social enterprises or investees repay the loan.
- Donors/outcome payers offer incentives to the risk investor if the outcomes are achieved and donors may also choose to provide financial incentives to the social enterprise

Social Stock Exchange (SSE)

- An SSE allows the listing of non-profit or non-government organisations on stock exchanges, providing them with an alternative fund-raising structure. It may be listed on BSE or NSE.
- An SSE is a platform which allows investors to buy shares in social enterprises vetted by an official exchange.
- Countries like the UK, Canada and Brazil have SSEs.
- The fund-raising is proposed through several instruments such as zero-coupon-zero-principal bonds, social venture funds and mutual funds.

**HDFC DEBT FUND FOR
CANCER *cure* 2014**
A 3 year closed ended capital protection oriented income scheme®



Example: HDFC Cancer fund

A recent 3-year Debt Fund for Cancer Cure by HDFC Mutual Fund mobilized about Rs 77 crore + Rs 180 crore. The interest from this was provided to Indian Cancer Society.

Its investors get their money back from HDFC MF, but any interest or gains that are made are donated to the ICS.

RECAP - What is results based funding?

Public or Donor or Social Impact Investor funds are made available not as “inputs” but only **on delivery of “outputs or agreed performance”**, generally for innovative approaches

“Everything that can be counted does not necessarily count; everything that counts cannot necessarily be counted”

Albert Einstein

“If you can't measure it, you can't manage it”

Peter Drucker

Benefits of results based funding

- “**Better quality of services** because incentives are placed on quality and timely delivery
- “Reduced corruption, due to increased transparency in the results-payment link
- “Change in culture, **from budget-driven to results-oriented**
- “**Closer supervision** as this is a necessary condition to issue payments
- “**Sustainability**, particularly if the **indicators are tracked throughout the project life**
- “**Increased autonomy for the implementing agency** as to “how” to deliver the results”

But, RBF also comes at a cost!!

- **High transaction** costs of developing the scheme that also requires large time investments during project preparation
- **Higher costs of monitoring and supervision**
- **Risk of unintended distortions caused by ill-defined incentives**
- RBF, **requires pre-financing!** This comes **at a high cost** particularly for non-governmental entities

Summary on Innovative Finance

- It is important to recognize and tap the **new sources of funds such as from social investors and** from the domestic lenders and capital markets.
- For this use of **results based funding (RBF) mechanisms** will be key as funders look to ensure outcomes.
- Both **governments and bilateral /multilateral funders** increasingly use **RBF mechanisms**
- While exploring private and commercial funding sources is an old story from 1990s, **urban and water and sanitation sectors have lagged behind other infrastructure sectors**. The renewed emphasis and emerging approaches of blended finance will need to be carefully designed and aligned with domestic institutions to show results at scale.

Inputs, Outputs, outcomes, impact

Results based funding

Crowdfunding

Measuring impacts

CSR realities

Output based aid

Third party monitoring

Social/ development impact bonds

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The Center for Water and Sanitation at CEPT University carries out various activities – action research, training, advocacy to enable state and local governments to improve delivery of services.



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