INDIA BLENDED FINANCE COLLABORATIVE
CATALYZING INNOVATIVE FINANCE FOR INDIA

Advancing the

TECHNOLOGY FOR GOOD (TECH4GOOD) AGENDA

THROUGH BLENDED FINANCE

IIC IMPACT INVESTORS COUNCIL | USAID FROM THE AMERICAN PEOPLE | NASSCOM® FOUNDATION | caspian | Dalberg

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The Need for Innovative Finance in India

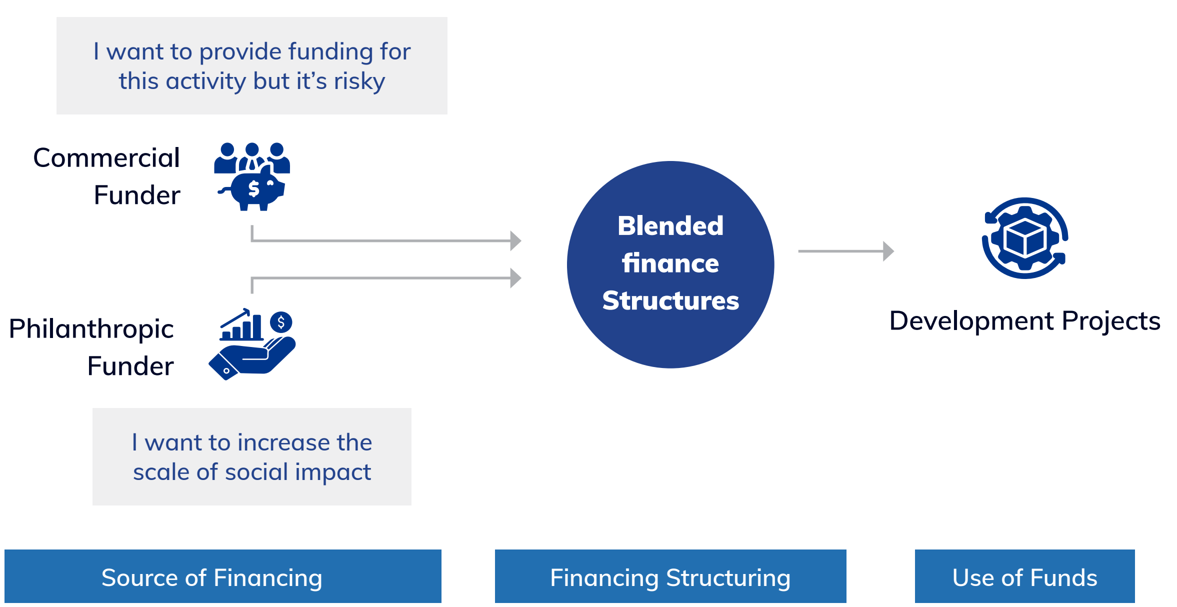
Over the past few decades, India has mobilized 300+ million people out of multidimensional poverty and made significant progress in social upliftment. However, the nation continues to reel with gaping inequalities, which have been further compounded by the Covid-19 pandemic, across sectors. To make matters worse, India's $565 Bn Sustainable Development Goals (SDGs) annual financing gap has only further widened post the pandemic. At the same time, government social funding is still constrained by limited resources, while economic shocks have induced a demand failure.

Given these challenges, it is imperative to look beyond traditional models of socio-economic development and embrace innovative financing mechanisms such as blended finance to enhance overall effectiveness of development interventions.

What is Blended Finance?

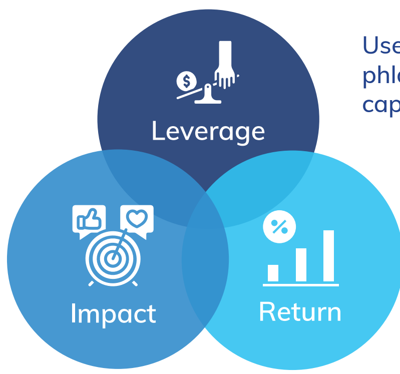
"Blended finance is the strategic use of development finance from public and philanthropic sources to mobilise additional capital from the private sector towards sustainable development. Typically, grant funding is blended with other sources of capital such as debt or equity to maximize funding and social impact capacity."

- India Blended Finance Collaborative (IBFC)



As the figure above suggests, blended finance enhances the impact of philanthropic and government funding by leveraging the funds to unlock the trillions of dollars of commercial capital available in the global market to finance socio-economic development. This innovative financial structuring is used to re-balance the risk–return profiles of pioneering, high-impact investments that would otherwise be deemed too risky to fund. The catalytic nature of such transactions allows governments and foundations to address market failures by utilising their corpus of funds judiciously.

There are three 'dimensions' which are essential to any Blended Finance intervention



Use of development finance anmd phlanthropic funds to attract private capital into deals

Investments tha drive social, enviroment & economic progress

Financial returns for private investors in line with market expectations, based on real & percieved risks

Why should Indian development community consider Blended Finance?

By facilitating robust public-private collaboration, blended finance structures present a strong and unique opportunity for key development stakeholders to collaborate in a way that builds upon each other's strength while mitigating risks that manifest across the various stages of implementing development projects.

Benefits to Stakeholder

Social Sector

- **Diversifies the pool of funding** by attracting non-traditional commercial funders
- **Increases accountability & performance** of service providers through pay-for-performance systems

Government

- **Supports capital preservation** in public spending and improves robustness of social programs
- **Promotes economic sustainability** by uplifting long-term economic potential

Commercial Sector

- **Facilitates risk-taking** by shifting away transactional risk to philanthropic funders
- Provides financing to **seed path-breaking and scalable innovations**

+

Benefits by Project/Enterprise Stage

Explore
Brings more investable, market ready projects

Build
Makes capital available in unpenetrated makets

Grow
Brings in new investors and skills

Mature
Brings in new investors and skills

Blended Finance Tools

Blended Finance structures can be categorised into diverse thematic archetypes based on the mode of intervention. It is important to note, however, that no matter the structures utilised, the goal is to help bridge financing gaps for large-scale development initiatives by overcoming barriers that may deter public & private funders from deploying capital for social impact.

Complexity of Instrument

Pay for Outcomes

Development funder pays only if certain pre- agreed outcomes are met.

↓

Returnable Grants

Development funder* gives grant as zero interest loans to the beneficiary and is returned and recycled.

↓

Interest Subvention

Development funder" incentives interest reduction for the borrower to encourage timely repayment and build credit history

↓

First Loss Default Guarantee

Development funder" acts as a guarantor to the beneficiary in case of a repayment default

↓

Impact Bonds

Development funder* (as an outcome funder) repays the risk investor only if certain pre-agreed outcomes are met.

**Development funder: CSRs, Foundation, Govt, etc.*

02

The Relevance of Tech4Good

What is Tech4Good?

Technology has always been at the forefront of social change – be it medicine language, writing or recent advancements like GPS, internet, or mobile phones. However, the impact of technology isn't always equally distributed amongst all in need. Tech4Good is an effort focusing on application of technologies for the greater good, bringing benefits of technology to those without.

Tech4Good can be broadly defined as the use of technology to address critical socio-economic challenges. It can be enabled by technologies, organisations, projects or even individuals. Tech4Good finds applications across social development goals

What is Tech4Good?

Civic & social

- Social cohesion
- Inclusive & equitable growth
- Culture & heritage

Quality Enviroment

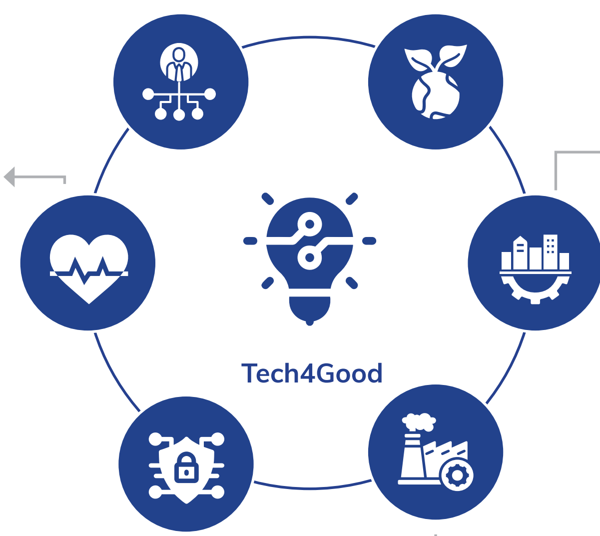
- Water, waste & sanitation
- Energy
- Food

Health & well-being

- Housing & home
- Healthcare
- Other public services

Building & construction

- Mobility
- Building & Construction
- Urban resilience



Security

- Personal safety & security
- Cyber-security

Industry & innovation

- Entrepreneurship & innovation
- Trade & commerce
- Education

Funding challenges of a Tech4Good enterprise?

Despite the agenda of greater good, the Tech4Good enterprises often face challenges in getting over the valley of death through the entrepreneurial journey. In their attempt to solve some of the toughest social challenges of our times, Tech4Good enterprises are often characterised by higher risk and lower return perceptions. This is driven by -

- *New and untested business models:*
  For social enterprises working on technological innovations, it becomes difficult to raise capital. This is because their business models are often highly innovative both from an operational and target market perspective, hence not comparable with existing models

- *Longer gestation and limited monetisation:*
  Tech4Good initiative also has a longer gestation period, which means it takes time for the technology to get developed and show results. For technological innovations working on social good, it is difficult for commercial investors to determine the monetisation potential.

- *Higher risk perception of business models & target market:*
  Both the previous factors lead to higher risk perception amongst commercial investors, who have limited capacity to evaluate these innovative business models. Also, Tech4Good enterprises tap into non-traditional markets (e.g. low-income / excluded populations), often providing public goods. These markets are often less understood and considered to be high risk
- *Mortgage collateral requirement:*
  Traditional lenders have a requirement for mortgage collateral for providing credit. A technology based social enterprise by a professionally managed first generation entrepreneur will not have anything such to offer to raise credit.

Due to the high-risk premiums associated with a higher risk perception, the cost of capital for these enterprises becomes very high. This becomes prohibitive for an early-stage enterprise with impact focus to raise necessary capital.

How blended finance can help advance Tech4Good?

Blended finance offers multiple techniques to balance the risk-return profiles to suit investor and Tech4Good enterprise needs. Philanthropic capital can provide the necessary impetus and generate multi-fold impact on / through a blended structure.

In practice, blended finance transactions have been structured in multiple ways – simple concessional capital to complex bond structures – a collection of case studies elaborates these in a subsequent section in this paper.

Multiple options for blending philanthropic grants with private capital

Philanthropic / Grant Capital/Grant Capital

Technical assistance facility

Support to investees to improve their ability to run their businesses in an optimal manner and enhance investability for private funds

Challenges addressed:
New and untested BMs

Guarantees & insurance

Initial investments by private investors are protected against risks); backed by development partner guarantees

Challenges addressed:
Higher risk perception

Advanced Market Commitments (AMC)

A portion of revenues are paid to investors, guaranteed by development partners

Challenges addressed:
Longer gestation and limited monetisation

Performance-based contracts

including DIBS and SIBS

Payment is realised upon fulfilment of pre-agreed results or milestones.

Challenges addressed: New and untested business models, Longer gestation and limited monetisation,

Patient/Concessional capital

Long-term loans or equity investments

Grants support the provision of low cost/ patient capital by private capital providers to lower the overall cost of capital and risk perception

Challenges addressed:
High cost of capital, New and untested business models, high risk perception

Private equity/debt

Blended finance techniques offer potential to unlock the entry of private capital in Tech4Good enterprises. This allows philanthropic capital to create impact on a greater scale.

03

Leveraging CSR and Blended Finance for Tech4Good Initiatives

Over 90% of Indian enterprises are developing or plan to develop technology for social good, according to the 2021 NASSCOM Foundation TechForGood report. According to the study now more corporates (66.38%) align their Tech For Good goals with their business strategies rather than CSR strategy. The fact that 53% of businesses also align their Tech for Good with the SDGs is encouraging. Despite these encouraging signals, only 27% of social companies have access to CSR funds, which makes it difficult for them to scale their solutions.

India has witnessed a robust growth of blended finance, attracting the participation of public, private, and philanthropic capital, and holding the potential to be a key to unlocking the additional funding needed to accomplish the SDGs.

Blended financing here becomes a useful instrument for philanthropic organizations and corporate social responsibility (CSR) foundations to complement traditional grant-making and invest their funds using Blended Finance tools in initiatives that generate both financial and social returns and deliver SDG outcomes at the same time.

Keeping in mind that CSR funding has a stringent model of regulations, compliances & need for impact, Blended finance provides wings in TechForGood space by reducing the risk premium through co-financing and co-investment and by building a pipeline of commercially viable social impact projects. This further creates a contagion effect, wherein, when new models are workable and successful, other commercial players also start providing funding in the space independently using similar models.

Over a period, this leads to an increase in the total capital deployed in the target areas. TechForGood however, needs the involvement of all stakeholders to deploy blended finance and CSR can act as a catalyst.

Since the impact of TechForGood endeavors can be measured only in the long term, the current CSR laws make that difficult to experiment with. The only way to make it work is the consortium approach where effective collaborations with organizations that share the same vision and act as a bridge between the corporates and the end beneficiaries
To conclude, blended finance offers India a unique opportunity to build strategic collaborations with the private sector to mobilize capital towards developmental initiatives. And even though there have been numerous new blended finance initiatives across the globe in recent years, there is still a lot of room for growth in the TechForGood sector.

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Blended Finance in Action - Tech4Good Case Studies

1. Social Success Note

Executive Summary:

Social Success Note is a Pay-For-Success Blended Finance solution. It aims to incentivize high impact enterprises for creating impact. This, in effect, creates a way for these enterprises to monetize their impact creation potential and help them scale. Caspian and SAMRIDH jointly created a Social Success Note Program to support high impact healthcare enterprises with debt capital by reducing their cost of capital at early stages.

The problem:

Innovative technology driven companies in healthcare often struggle in their early stages to raise capital and grow. Their balance sheets are weak and the cost of capital for such untested models is very high.

Blended Finance Solution:

Caspian (risk investor) provides loan to identified impact-oriented healthcare enterprises which have the potential to scale commercially. These enterprises submit their impact creation metrics at a pre-agreed frequency. Based on this SAMRIDH (outcome funder) approves reimbursement of up to 5% of interest cost as incentive for impact creation.

Impact created:

- Pool size- USD 2.5 million,
- Outcome funding- USD 300 K
- Leverage- 8.3 X (USD 8.3 of commercial capital mobilised for each USD of grant capital)
- Examples of some high impact companies supported:

  Neurosynaptic- High quality telemedicine to rural areas

  Collateral Medical - Accelerated Oxygen concentrator supply during the second Covid wave

Key Insights:

Social Success Note is an impactful way to incentivise impact while also creating financial discipline for the companies to grow in a sustainable manner.

2. Small Business Finance

Executive Summary:

India's micro, small, and medium enterprises (MSME) sector is the source of innovation and livelihood for millions of people. The country's 63 million MSMEs represent 30 per cent of India's GDP and the largest source of employment. One in six of these MSMEs are nano enterprises: very small, informal businesses run by nano entrepreneurs. Typically, they earn less than around Rs 25,000 a month, but they run businesses with big growth potential, and they represent a credit market of Rs 2 lakh crore.

The problem:

Though the credit market is huge, the credit availability to this market is limited. This is due to high perceived risk, informal nature of business, lack of collateral and lack of credit history. The problem was aggravated during covid when such enterprises went out of business immediately and the appetite to lend to them became severely limited.

Blended Finance Solution:

Portfolio Second Loss Guarantee
Risk Investor- Caspian, Guarantor- MSDF
Caspian provided loan to eligible Financial Institutions which further on-lend to nano entrepreneurs. These technology-based retail institutions use data driven approach to assess credit worthiness of these nano borrowers. In this structure, the first pool of loss, if any, is to be taken by Caspian. The second bigger tranche of loss is then covered by MSDF. This ensures strong focus on credit discipline at all levels while also mobilising credit for the micro-enterprises which were severely hit due to covid.

Impact created:

- Pool size- ~USD 19 million,
- Guarantee- USD 3.75 million
- Leverage- 5 X
- Benefitted > 600,000 nano entrepreneurs through 17 retail NBFC partners.

Key Insights:

Risk sharing through credit guarantees helps lenders make precious capital available to small businesses which are otherwise considered highly risky. This has a further multiplier effect on the GDP and employment growth in the country through these nano enterprises.

3. Blackfrog Technologies

Executive Summary:

Blackfrog Technologies is a health-tech company specializing in the last mile delivery of medical supplies and biologicals. The team developed Emvólio, a portable, active cooling, battery-powered device that facilitates the last-mile delivery of vaccines and all other biologicals like blood, serums, and viral culture.

The problem:

Given the nascent stage of the enterprise, Blackfrog was experiencing a cashflow crunch triggered by long working capital cycles, high up-front costs, and limited manufacturing capacity. They needed growth capital to expand manufacturing capability but did not have strong balance sheet or confirmed orders in hand to access credit. However, the company had a promising product and showed potential for both impact and commercial sustainability in future.

Blended Finance Solution:

- Total Investment Size: USD 200,000
- Interest Subvention: 10% p.a. for 18 months
- Returnable Grant: USD 71,000
- Partial Risk Guarantee: USD 114,000
- Technical advisory for scaling

Impact created:

- Overall leverage of 3-5x
- Returns on commercial capital ~15% p.a.
- Increased access to vaccines
- Greater economies of scale
- Improved Cash Flows

Key Insights:

Interest subvention can help enterprises simultaneously scale and generate social impact, without compromising on their commercial viability.

Knowledge Partners

What is the India Blended Finance Collaborative (IBFC)?

The India Blended Finance Collaborative (IBFC) is an initiative by Impact Investors Council (IIC) and USAID to catalyze the designing and utilization of innovative financial structures in India. IBFC's goal is to engage with a wide base of capital providers, particularly domestic philanthropies to increase participation in blended finance transactions and also deepen sector specific knowledge on different structures and products, through a mix of interventions.

Visit : www.blendedfinanceindia.org

About Impact Investors Council (IIC)

The Impact Investors Council, India (IIC) is a member-based industry body established in 2014 to help build India's impact investing ecosystem and present a compelling and comprehensive Indian impact investing story. IIC does this through data-driven research, thought leadership, government advocacy and partnership building. IIC is registered as a not-for-profit entity and is funded through membership fees from its member base. IIC enjoys the active support of over 50 prominent impact investors and ecosystem players including Rockefeller Foundation, British International Investment, USAID, Omidyar Network, Bridgespan Group, IKEA Foundation, Acumen, etc.

About NASSCOM Foundation

Established in 2001, NASSCOM Foundation has been a witness to the transformative power of technology for the last 20 years. A part of the NASSCOM ecosystem, it is the only neutral, not for profit organization, representing the Indian Tech Industry. NASSCOM Foundation remains rooted in its core philosophy of "TechForGood", where its efforts are focused on unlocking the power of technology by creating access and opportunity for those who need it most. The Foundation works on helping people and institutions transform the way they tackle social and economic challenges through technology. Its three key areas of intervention include – Digital literacy, Skilling and Employability and Women Entrepreneurship.

About Dalberg

Dalberg Global Development Advisors is a strategy and policy advisory firm. Founded in 2001, the company specializes in global development. Dalberg has worked in over 90 countries with over 400 clients including governments, foundations, international agencies, non-governmental organizations, and Fortune 500 companies. Its mission is to raise living standards in developing countries and mobilize effective responses to the world's most pressing issues.

About Caspian

Caspian Debt is a corporate lending financial services company that offers custom debt products to Professionally Managed Small or mid-market Companies and start-ups founded by first-generation entrepreneurs with ambition to grow the company in a Responsible, Transparent and Sustainable Manner. The company promoted by Caspian, a pioneering impact investing firm with the track record of supporting breakthrough companies and entrepreneurs across a range of high impact sectors. Caspian has debt funded more than 130 companies with varied business models including technology or brick & mortar.