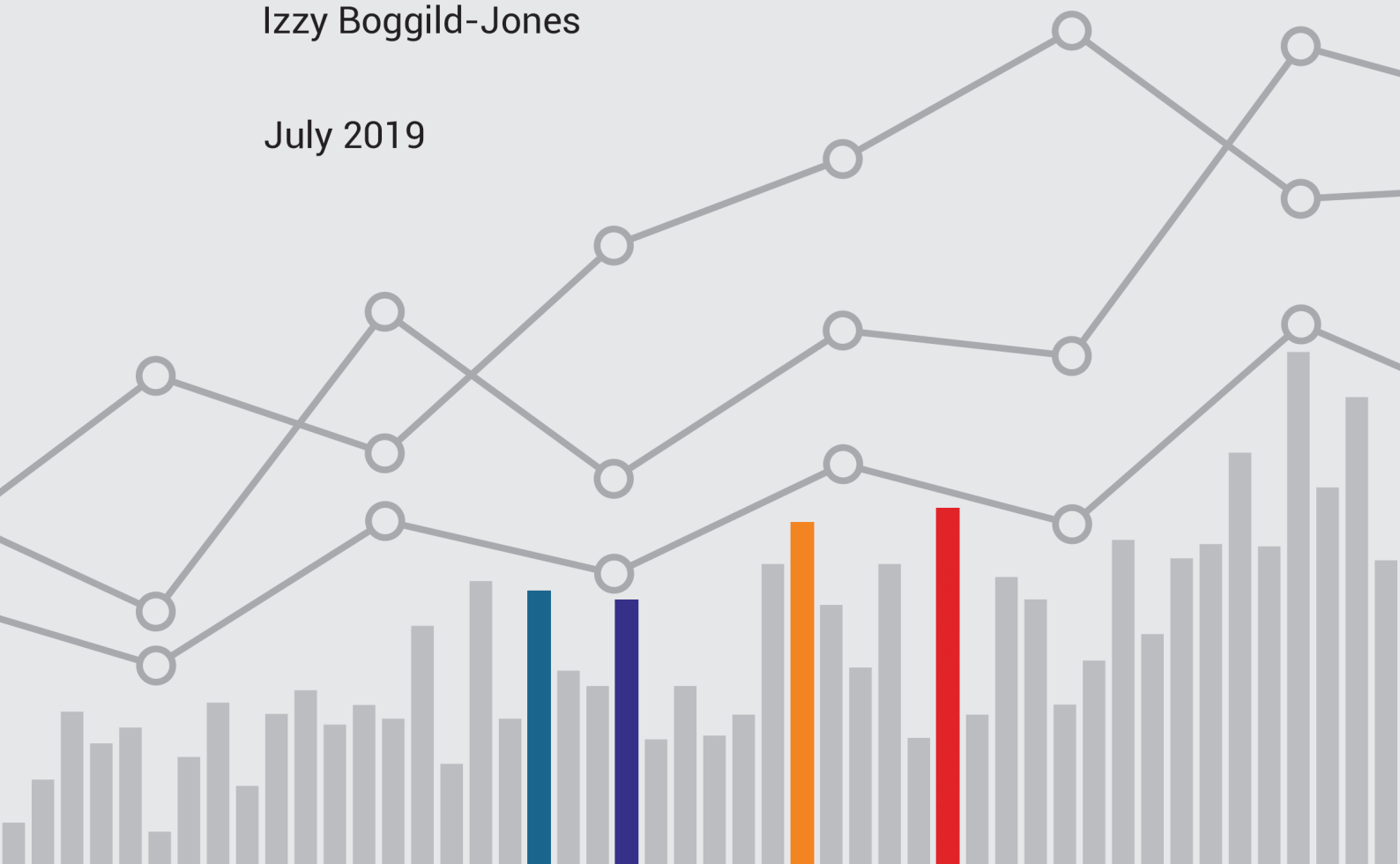




# The Promise of Impact Investing in India

Shamika Ravi  
Emily Gustafsson-Wright  
Prerna Sharma  
Izzy Boggild-Jones

July 2019



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No. 6, Second Floor, Dr Jose P Rizal Marg,  
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BROOKINGS INDIA



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## **ACRONYMS:**

|       |   |
|-------|---|
| SDGs  | Sustainable Development Goals   |
| GIIN  | Global Impact Investing Network   |
| CSR   | Corporate Social Responsibility   |
| ESG   | Environmental, Social and Governance                                    |
| SRI   | Socially-Responsible Investing  |
| IIC   | Impact Investors Council  |
| SIB   | Social Impact Bonds   |
| DIB   | Development Impact Bonds  |
| QCI   | Quality Council of India  |
| GDP   | Gross Domestic Product  |
| MFI   | Microfinance institutions   |
| PE    | Private Equity  |
| VC    | Venture Capital   |
| PbR   | Payment by Results  |
| RBA   | Results-based Aid   |
| RBF   | Results-based Financing   |
| SIINC | Social Impact Incentives  |
| SSN   | Social Success Note   |
| RCT   | Randomised Controlled Trial   |
| DFID  | Department for International Development                                |
| MOSPI | Ministry of Statistics & Program Implementation                         |
| ASER  | Annual Status of Education Report                                       |
| GIIRS | Global Impact Investing Rating System                                   |
| PRISM | Probability Risk and Impact System                                      |
| SROI  | Social Return on Investment   |
| CBA   | Cost-Benefit Analysis   |
| PRI   | Principles for Responsible Investment                                   |
| DLHS  | District-level Health Survey  |
| NFHS  | National Family Health Survey   |
| HMIS  | Health Management Information Systems                                   |
| CGHS  | Central Government Health Insurance                                     |
| CHMI  | Center for Health Market Innovations                                    |
| NAS   | National Achievement Survey   |
| TIMSS | Trends in International Mathematics and Science Study                   |
| IEA   | International Association for the Evaluation of Educational Achievement |
| DISE  | District Information System for Education                               |
| SEQI  | School Education Quality Index  |
| IRIS  | Impact Reporting and Investing Standards                                |
| FAST  | Finance Alliance for Sustainable Trade                                  |
| SIAMT | Shared Impact Assessment and Measurement Toolbox                        |

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## EXECUTIVE SUMMARY

**G**overnments around the world are starting to recognise the need for a new approach to social service delivery. One that places emphasis on identifying innovative ideas, testing their effectiveness and scaling up programs that prove successful. The main hurdles to this new approach are a lack of up-front funding, inability to sustain focus on performance and a reluctance to take on the risk of failure. The impact investment ecosystem is designed to overcome these challenges. With an active social enterprise space and an engaged investment market, impact investing takes advantage of private sector efficiency and capital to achieve public sector goals. With this report, we aim to provide an analysis of the impact investment sector in India and its potential to achieve social good. The study brings together wide-ranging analyses undertaken between February 2018 and April 2019. Structured around four key tenets of impact investment market activity – market trends in India, sector-level analysis, innovative financing and measurements— it takes the reader through the major trends that have shaped the Indian impact investment environment and offers specific recommendations. A special focus is placed on the key social themes of health, education and agriculture. The methodological approach put forth by the study will help identify the essential tenets for the development of this ecosystem, and layout clear, actionable recommendations for implementation by major stakeholders. Through undertaking an in-depth desk and literature review and a primary survey, the report aims to equip key stakeholders with the core conditions for decision-making across different facets of impact investment market activity. Armed with these learnings, readers will be poised to play a major part in the creation of a social financing ecosystem in India.



# INTRODUCTION

**A**chieving the ambitious sustainable development goals (SDGs) by 2030 will take an estimated \$5 to \$7 trillion per year, with a financing gap of \$2.5 trillion in developing countries.<sup>1,2</sup>

In India alone, the outsize challenge has been translated into a financing gap of \$565 billion.<sup>3</sup> While the country has seen huge progress across the social sectors, enormous challenges remain. For example, only slightly over half of all children enrolled in standard 5 can read at least a standard 2 level text, while just 21% of mothers receive full antenatal care.<sup>4,5</sup>

Closing this gap requires action on several fronts; efficient and effective domestic resource mobilisation, outcome-focused donor efforts to ensure that money is spent well and harnessing private capital for good. In recent years, interest has grown globally amongst governments and markets to develop new investment approaches, such as impact investing or purpose-driven finance. Impact investment refers to the provision of finance to organisations with explicit expectations of financial returns as well as measurable social outcomes.<sup>6</sup>

According to a recent analysis by the Global Impact Investing Network (GIIN), over 1,300 organisations manage \$502 billion in impact investing assets globally.<sup>7</sup> The impact investing sector in India attracted over \$5.2 billion between 2010 and 2016, with over \$1.1 billion invested in 2016 alone.<sup>8</sup>

With the emergence of impact investing as a new asset class in India, investors are not

only providing capital and support to social enterprises but also growing to understand the potential of this new form of investing. Given the risks and complexities of serving the social finance sector, several innovations have emerged – not only the way capital is structured but also how impact is delivered. There has also been a rise in public-private partnerships, largely driven by government budgetary constraints, the new public management ethos and the fact that innovation is increasingly cooperative and network-based. Financing development through extra-budgetary means and public-private partnerships offer potential solutions, such as a focus on outcomes and improved performance management for service providers.

India has a thriving social enterprise ecosystem; many organisations, however, struggle to access the capital they need. In a survey of Indian social enterprises, 57% identified access to debt or equity as a barrier to growth and sustainability.<sup>9</sup> And despite the developing ecosystem and potential of the impact investment space, the literature on impact investing in India is limited. The number of impact investors in India, the sectors and areas they choose to invest in and the future of instruments remain unclear. This report aims to provide an analysis of the state of the impact investing sector in India, with specific focus on the health, education and agriculture sectors, as well as examining how impact is measured. The report also investigates several instruments, including equity and debt investments as well as market-based, innovative solutions such as social and development impact bonds (SIBs and DIBs hereafter) and innovation or outcomes funds.

<sup>1</sup> UNCTAD. (2014). Developing countries face \$2.5 trillion annual investment gap in key sustainable development sectors. Press release.

<sup>2</sup> United Nations Development Program. (2017). Impact investment to close the SDG funding gap.

<sup>3</sup> Bhamra, A., Shanker, H., & Niazi, Z. (2015). Achieving the Sustainable Development Goals in India. A Study of Financial Requirements and Gaps. Technology and Action for Rural Advancement, A Social Enterprise of Development Alternatives Group. New Dehli, India: Devalt.

<sup>4</sup> Annual Status of Education Report (ASER 2018).

<sup>5</sup> Ministry of Health & Family Welfare. (2016). India Fact Sheet – National Family Health Survey (NFHS-IV)

<sup>6</sup> Wilson, K. E., Silva, F., & Ricardson, D. (2015). Social Impact Investment: Building the Evidence Base. Available at SSRN 2562082.

<sup>7</sup> The GIIN. (2019). Sizing the impact investing market.

<sup>8</sup> McKinsey & Company. (2017). Impact investing: Purpose-driven finance finds its place in India.

<sup>9</sup> British Council. (2018) The State of social enterprises in Bangladesh, Ghana, India and Pakistan.

## IMPACT INVESTING

**W**ithin the broader spectrum of social investment models, approaches range from purely profit-driven investing without expectations of social impact to pure philanthropic grant-making by donors and foundations. Corporate social responsibility (CSR), socially responsible investing (SRI) and a focus on environment, social and corporate governance (ESG) have also gained traction in the last decade in India and abroad. Globally, some of these trends have been driven by government-led advances in bringing analysis and rigour into public spending and social outcomes.

Impact investing differs from corporate social responsibility, environmental, social and governance or socially-responsible investing as it goes a step further to include only those investments that have clearly defined intentionality for achieving “measurable” impact, alongside financial returns. Financial returns for impact investing range from simply preserving the principal amount to matching the principal amount to even exceeding mainstream market returns. Impact investors also focus on investing in social enterprises that do not just mitigate negative impacts but also generate net positive impacts. Positive impacts may be demonstrated in various ways – from creating jobs and employability to serving low-income consumers through housing, education, accessible healthcare or inclusive finance. What further distinguishes impact investing from traditional philanthropy has been the investment and return motives of impact investors where scalability, entrepreneur characteristics and experience weigh in. Despite the promise, cumulative assets under impact investing remain marginal compared to the billions of dollars invested under CSR, ESG or SRI. The field is new and evolving fast in India, with approximately 30 firms in the market, a subset of which is registered with the Impact Investors Council (IIC) in India. The impact investing market in India has mimicked the trends and challenges of the global impact investment industry. However, there are several peculiar aspects of the Indian market which make it interesting and critical to examine from a policy perspective.

## IMPACT BONDS

**I**mpact bonds refer to a specific form of outcome-based or payment-for-success contracting that often employs upfront impact investment capital. The impact bond model aims at improving development outcomes for specific groups or beneficiaries. Impact bonds in financial terms do not qualify as bonds, since unlike bonds, impact bonds tie financial returns to the achievement of outcomes. Impact bonds have several potential advantages: when investment is tied to outcomes, rather than activities, service providers gain greater flexibility to adapt and improve their programs; governments have the potential to transfer the financial risk of a program to the private sector by only paying for a program when pre-agreed outcomes are achieved. Such instruments may help promote a culture of data generation and use and performance management. Impact bonds in India remain at a nascent stage, with two contracted in education and one in healthcare.

## RESEARCH METHODOLOGY AND MOTIVATION

**O**ur methodology involves a primary survey of different stakeholders in the impact investing market in India. The survey instrument is available in Appendix 1 at the end of this document. Our sample includes a variety of stakeholders, including those involved in impact bonds in India and portfolio companies where impact investments were made. The survey captures the flow of current investments, average expected returns, sectors of investment as well as the future of innovative financing in India.

We designed a mixed survey that consisted of both multiple-choice and open-ended questions. We then compiled a list of entities involved in the impact investing and innovative financing space in India and contacted their representatives for interviews. Given the small size of the impact investment industry in India, our survey sample size remains small – 27 organisations. This is, however, the largest survey of the industry. Earlier surveys were limited in scale as they were confined to firms with membership to

the IIC (approximately 12 firms in 2016). They were also limited in scope and did not capture detailed disaggregated industry characteristics. Our survey addresses a larger number of industry features, including innovative financing instruments and sector-level trends which highlight the complexity and future potential of the impact investing industry in India. Of the total number of firms that we surveyed, 17 identify themselves as impact investors, eight as impact bond players and two as social enterprises. The interviews capture a range of perspectives from a dynamic industry that is at a nascent stage. The early empirical trends, however, hold promise of a future with far-reaching influence on India's development in sectors including health, education, agriculture and financial inclusion.

Our analysis also incorporates the data provided by the IIC. Collected in collaboration with a team from Duke University, the IIC data provides summary statistics of how members of the council measure impact, the size and nature of their relative investments and the average returns they earned. For a global perspective, we conducted an extensive literature review of global research on impact investing from developed and emerging markets.

The empirical focus of this study is on industry trends within the health, education and agriculture sectors. We also identify the common challenges that are faced in the field and offer policy recommendations which can expand the scope and scale of impact investing in India. Despite significant government impetus to the development sector across India, there remain some fundamental shortcomings because of limited resource allocation towards it. Simultaneously, several opportunities for private sector involvement are emerging within these sectors through the impact investing route. Investments into the development sectors can have a profound impact on poor, rural and excluded segments of the Indian population. Hence, this report aims to inform stakeholders – including government and industry—of the methods, instruments and best practices that are required to channel resources towards an outcome (impact) focused approach.

## MAIN FINDINGS AND POLICY RECOMMENDATIONS

Each chapter of this report provides stakeholders with takeaways and learnings from the survey and research around impact investing in India. With the first chapter, we outline a history of the Indian impact industry and initial results from the survey – these touch on average sizes of investments, types of investments, average returns across the industry and some sector-level analysis of returns. In the second chapter, we deep dive into key sectors of investment – primarily, health, education and agriculture and present trends and challenges investors face while operating in these markets. The third chapter presents information on innovative financing tools such as social and development impact bonds, the market in India and the future of these novel approaches. In the fourth chapter, we show trends on measurements of impact and provide guiding steps for the industry to define impact more transparently and robustly.

Through the course of our research, we find several trends, many that mimic the international market and many that remain unique to the Indian context. Our main findings show how the Indian impact investment story is continuously evolving and changing. Impact investments are shifting from financial access, microfinance and energy towards traditional philanthropic sectors such as health, education and agriculture. Average returns beat market returns, even in sectors which are traditionally social sectors with low returns. We see impact investors playing hybrid roles, somewhere between private equity (PE) investors and accelerator/incubator style mentors. And find a strong focus on tech-based investments to achieve scale and reach. We find impact to be defined loosely and a lack of cohesion on measures and indicators at a sectorial and investment level. And a need to build an evidence-backed knowledge base for innovative financing and impact bonds.

The last chapter of the report provides key policy recommendations to build a case for **mainstreaming impact investment as a complement to government and philanthropic spending**. We aim to contribute to the conversation around outcome-based approaches. We recommend impact investors move beyond “easy-finds” and push for innovations beyond tech-based solutions. And the **acceptance of global best practices and the promotion of greater transparency in measurements, through coordination and facilitation by industry organisations,**

**such as the Impact Investors Council and Quality Council of India (QCI)**. We recommend investments of time and energy on search processes and truly filling gaps in provision, by bringing innovations in products and solutions. We also recommend **the investigation of outcomes contracting at scale through the creation of an Outcomes Fund at a government or quasi-government level**. Ultimately, a robust Indian impact investment market will depend on accurately identifying and improving hindering factors and constructing a strong ecosystem that fits its needs.



# IMPACT INVESTING IN INDIA

## 1.1 DEFINING IMPACT INVESTING

According to the GIIN, impact investments are, "Investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return."<sup>10</sup> Distinct from purely social-driven activities or profit-driven investing, impact investing offers the marriage of the two. It requires the deploying of private capital to create positive impact beyond financial return.

At the heart of impact investing lies the identification of investable enterprises or portfolio companies. Chua et al. suggest that social enterprises targeted for impact investing should meet three criteria: satisfy an existing (unmet) market demand; have an explicit social mission, or have the potential to be a sustainable business and scale impact.<sup>11</sup> A big enabler of the impact investment industry in India has been the existence of capital-hungry social enterprises, equipped with ideas on how to deliver services to underserved populations. Where initially many social enterprises found themselves trapped in a critical financing gap, the space is now being filled by impact investors deploying capital, harnessing business models and achieving scale.

While impact investing maybe categorised within traditional asset or investment classes, there are several factors that differentiate it, such as the unique skills that are required to measure, analyse and evaluate social return and the development of an appropriate risk-return matrix. A potential advantage of impact investing is the capacity to

take advantage of private sector efficiency and capital to achieve public sector goals. Inherent within this setup is the ability to sustain focus on performance and taking risks, such as implementing a promising but unproven idea.

Outcome-based financing instruments, including SIBs and DIBs, fit within this larger impact investing space. **Impact bonds have gained momentum in recent years because they offer an opportunity to translate socially desirable goals into measurable economic returns. Impact bonds are highly structured products that require collaboration between multiple actors, quality data collection, and a sophisticated and stable legal framework and thus can be challenging to implement in low and middle-income countries.** Furthermore, they have thus far proven difficult to scale and typically have high transaction costs.

### IMPACT INVESTING IN INDIA

India is at a significant crossroads in its history. The onset of a new era of economic reforms, in addition to development in line with 'middle-income' expectations, comes with new requirements for reducing poverty and inequality and boosting productivity. While a booming middle-class, good trade relations and strong democratic values position the country strategically to be one of the most prosperous in the region, India remains a country of contrasts. Its large cities face the quandaries imposed by rapid urbanisation, and rural regions still suffer from entrenched poverty and under-development.

<sup>10</sup> GIIN. (2019). What you need to know about Impact Investing.

<sup>11</sup> Chua, C., Gupta, A., Hsu, V., Jimenez, J., & Li, Y. (2011). Beyond the margin: Redirecting Asia's capitalism. Hong Kong: Avantage Ventures.



Social impact and entrepreneurship are deeply rooted in the Indian ethos. In the 1950s, The Amul Dairy Cooperative in West India spurred the “white revolution”, turning India to the world’s largest milk producer. The Amul example showcased the first successful business model employing low-income dairy farmers to professionally manage a supply-chain. Fabindia, set up as an enterprise that linked crafts-based rural producers to modern urban markets, provided one of the first models of skilling, employing and providing markets for sustainable rural employment. From Fabindia’s community-based business model to the setup of a mammoth microfinance sector, rural and poor households started featuring in India’s growth story.

**A pivotal moment of reckoning for the Indian impact story was the expansion and subsequent crash of the microfinance industry in early 2011.**

The Indian microfinance industry (MFI) traces its roots back to the early 1970s after which the sector experienced massive expansion and growth. The size of the industry was estimated in 2010-11 to be as large as US\$6.7 billion with nearly 30 million beneficiaries.<sup>12</sup> However, in the wake of close to 30 farmer suicides in Andhra Pradesh and a subsequent government ordinance, the sector’s future was stamped with a huge question mark. With interest rates frequently exceeding 25% and high returns on investments made by private equity funds, the rationale and fallout had larger implications for the impact investment market as a whole. What came out through this experience, was a fundamental tension between the twin objectives of profitability and development and how this was tackled differently in profit-oriented MFIs versus non-profits.<sup>13</sup> Notwithstanding its phenomenal growth, this marked a critical juncture for the Indian impact investing industry.

**Indian impact investing began in earnest in 2001 with the establishment of Aavishkar, India’s first for-profit impact fund, alongside the entry of the non-profit Acumen Fund, becoming the first examples of early-stage seed impact**

**investing.** The Companies Act of 2013 marked another pivotal moment in the Indian impact story, mandating corporates above a certain profit threshold to spend 2% of their net profits on corporate social responsibility (CSR). The Act, however, excluded the term “social business” under the list of permissible CSR activities on which corporates could spend their profits. Over time, different models evolved to utilise these mandated CSR funds, setting the stage for a new wave of philanthropic spending. Companies spent Rs. 5,922 crores in 2014, Rs. 7,549 crores in 2015 and Rs. 8,446 crores in 2016 on eligible CSR activities, as per data from the Ministry of Corporate Affairs.<sup>14</sup> While these remain significant amounts, available public funding is limited. For example, India has one of the lowest public health expenditure figures as a percentage of Gross Domestic Product (GDP) in the world. The government has spent around 1.02% of its GDP on healthcare as of 2016,<sup>15</sup> a figure that has remained largely unchanged since 2009, whereas the average figure for most low-income countries stands at around 1.4%. India lags significantly behind its South-Asian counterparts and neighbours. For example, Sri Lanka spends almost four times as much as India per capita on health while Indonesia spends almost twice.<sup>16</sup>

With appropriate scale, scope and focus, impact investing can go a long way in complementing the public sector in bringing about equitable, sustainable and efficient development, especially in the resource-starved healthcare, education and agriculture sectors in India. However as an emerging economy, India’s social safety net and fiscal capacity are smaller than that of developed countries like the United States or the United Kingdom, where impact investing and impact bonds have been successfully implemented.

**As a result, the fiscal and distributive effect of impact bond-type policies and impact investing initiatives are poised to be proportionately impactful.**

<sup>12</sup> Ministry of Finance (mid-year analysis for 2010-11).

<sup>13</sup> For more on this, please read - Chakrabarti, R., & Ravi, S. (2011). At the crossroads: Microfinance in India.

<sup>14</sup> Ministry of Corporate Affairs & <https://indianexpress.com/article/opinion/columns/indian-companies-act-corporate-social-responsibility-funds-csr-activity-5202579/>

<sup>15</sup> Union Budget, Government of India.

<sup>16</sup> Central Bureau of Health Intelligence. (2018). National Health Profile.

## 1.2 THE INDIAN IMPACT INVESTING MARKET

Shifting culture, growing capital markets and the rise of digitisation are all changing the impact investing landscape in India, creating more opportunities for capital deployment. Building a robust domestic impact investing industry warrants the need to analyse the landscape. By interviewing over 25 impact investors, social enterprises and stakeholders involved in impact bonds in India, we aim to present results that help outline what the state of the sector is. We focus on what sectors impact investments are going into, how firms measure impact and the potential of innovative financing tools such as impact bonds. A portion of the report also focusses on data collected by the IIC along with Duke University from late 2017. We use this data (hereafter referred to as IIC data) to inform analysis where appropriate or necessary. Past literature and data on impact investing in India have been collected by McKinsey (2017) and IIC (with the help of Duke University) (2018): we use their analysis to supplement our findings. However, given the nature of our instrument, we focus on the findings of our survey. This section outlines the results from the survey for both equity and debt funds interviewed by the Brookings team.

### INVESTMENTS AND ASSETS UNDER MANAGEMENT

As of 2018, assets under management varied between \$0.15 million to \$88.97 million, averaging at \$36 million (see Figure 1 below).<sup>17</sup>

Figure 1: Assets Under Management (in million dollars), 2018



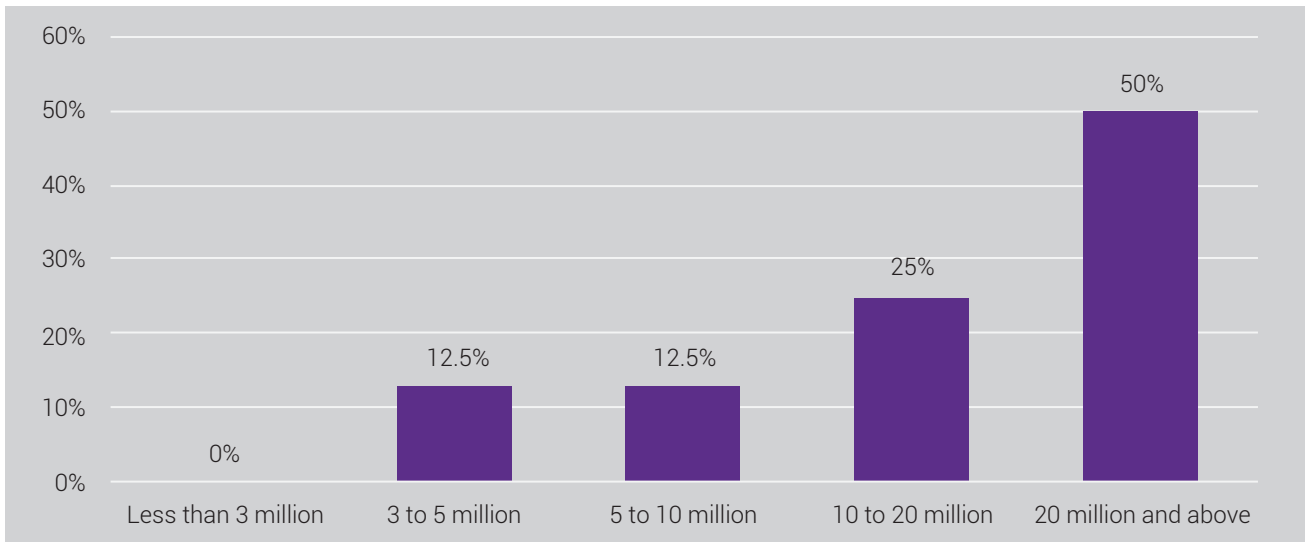
Source: IIC Data

In our survey, we found that half of the impact investors in India (50%) had average investments above \$20 million for the current financial year (Figure 2). Of these investments, nearly 75% of impact investors made equity investments in portfolio companies, followed by 17% that made pure debt investments and 8% who made debt, equity & blended instrument investments (Figure 3). The impact sector in India recorded 48 exits between 2010 and 2015.<sup>18</sup>

<sup>17</sup> As per data gathered by the IIC and McKinsey India.

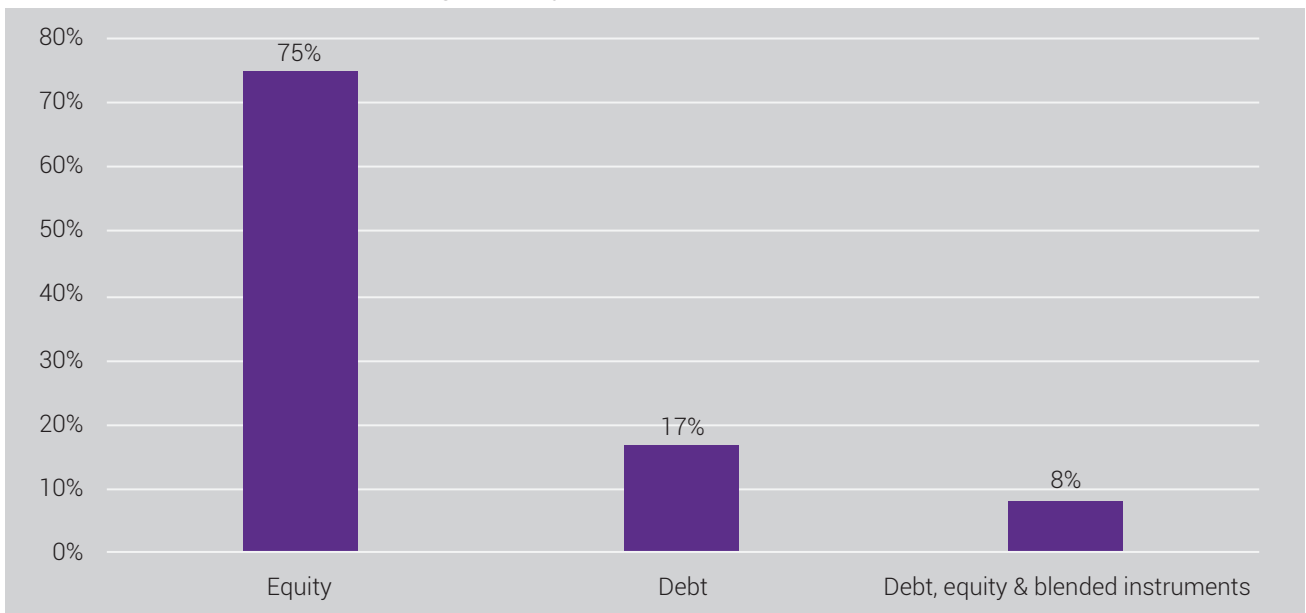
<sup>18</sup> As per data gathered by the IIC and McKinsey India.

Figure 2: Value of investments, 2018



Source: Brookings Survey

Figure 3: Types of investments, 2018

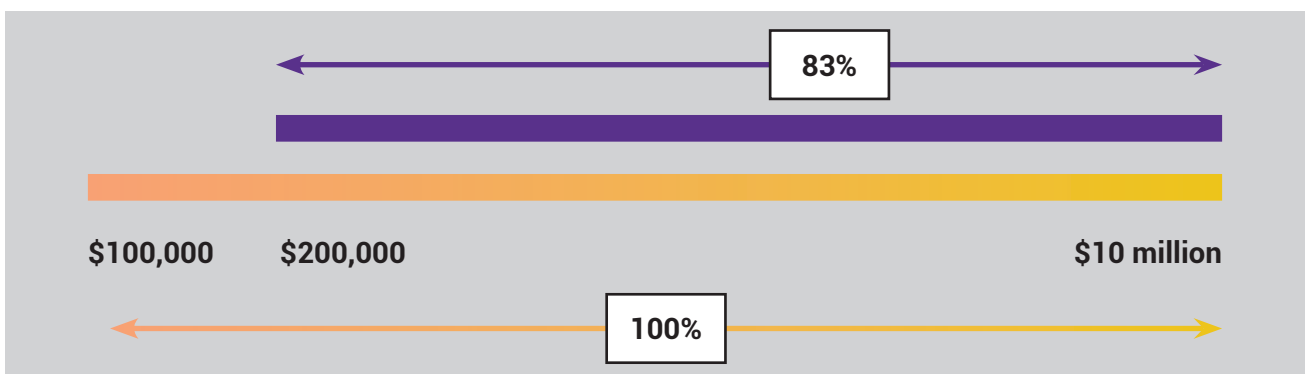


Source: Brookings Survey

### CHOICE OF INVESTMENT STAGE AND AVERAGE SIZE OF INVESTMENTS

While all Indian impact investors (100%) make average investments between \$100,000 and \$10 million, 83% of these funds made investments on average between \$200,000 and \$10 million.

Figure 4: Range of impact investments, 2018



Source: Brookings Survey



Overall, impact investors in India engage with social enterprises at multiple stages, with a majority focusing on seed or early-stage funding. This is corroborated by the IIC and Brookings data. Through our analysis, it can be ascertained that impact investors in India invested in portfolio companies in the following stages:

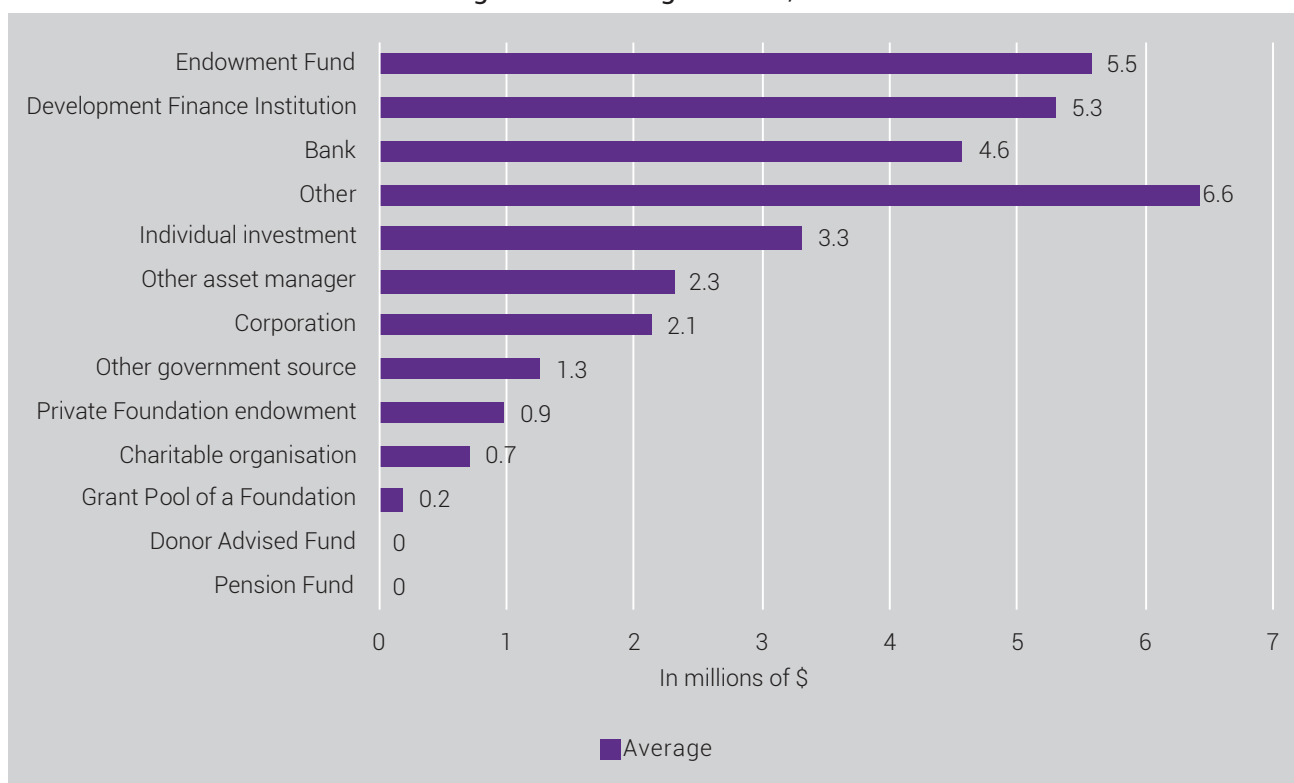
- Seed & early-stage funding – Seed investors typically invest between \$100,000 to \$500,000.
- Series A – Investments in this category vary between \$500,000 to \$2 million.
- Series B – Funds typically invest between \$2 million to \$5 million though the upper bounds reach up to \$10 million.

As per IIC data, most investors (10 out of 13 surveyed) stated that they invested in portfolio companies in early stages i.e. seed or series A; however, there has been a shift in this trend with considerable investments in mid and growth stages. For example, an investor interviewed by the Brookings team stated that the firm invests between \$1 million to \$2 million in the first round and up to \$10 million over the lifecycle of a company.

### SOURCE OF FUNDS

As per IIC data, the largest amount of funds for impact investors come from the “others” category. In the sample, this category is dominated by “fund of funds” including insurance companies. The endowment fund also contributes considerably to the fund pool with over \$5 million coming from this category. Small contributors are government and other charitable institutions.

Figure 5: Funding sources, 2017

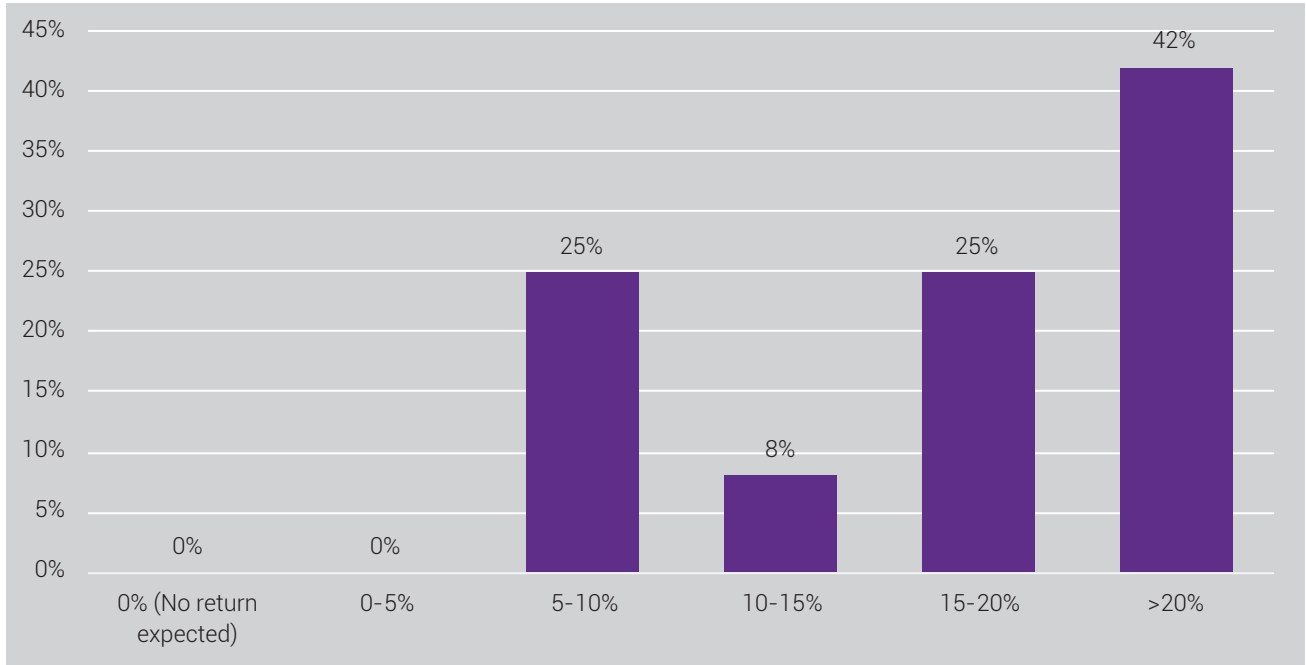


Source: IIC Data

## EXPECTED RATE OF RETURNS

A majority of impact investors in our survey achieve above market returns, defined in the Indian context as beating the Sensex, which is India's weighted stock-market index of 30 companies listed on the Bombay Stock Exchange. For the purpose of our analysis, market returns are assumed to be 12.5%.

Figure 6: Average rate of returns, 2018

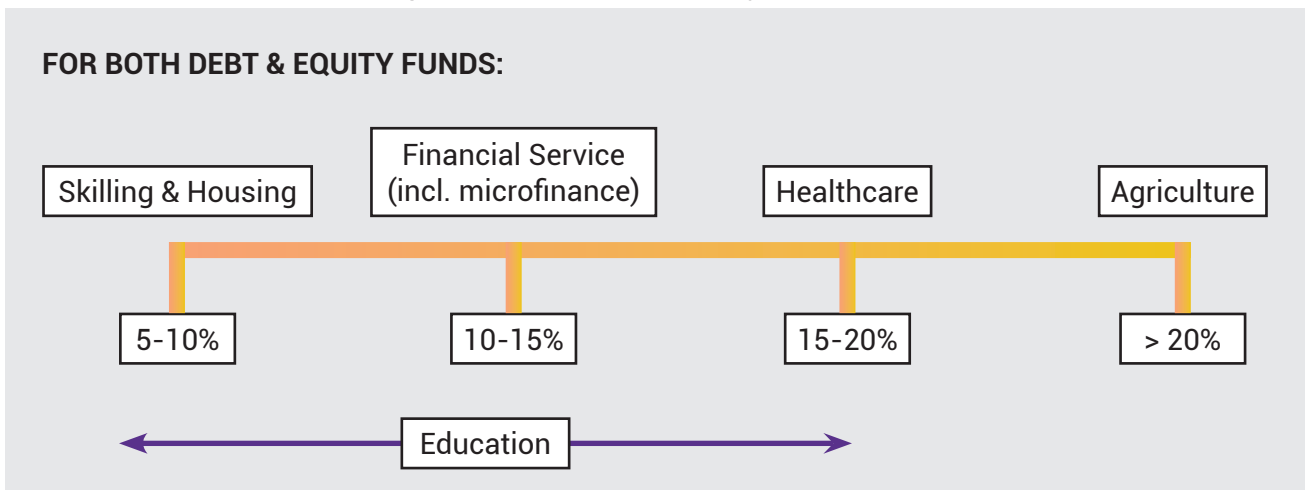


Source: Brookings Survey

The data shows that 67% of impact investors are beating market returns, with nearly 42% stating that they received returns above 20%. Another 25% of impact investors achieved returns in the 15-20% range, 8% of impact investors between 10-15% and 25% of impact investors achieved below market returns of between 5-10%. This remains consistent with the data collected by the IIC and McKinsey. In fact, according to McKinsey, the top one-third of Indian Impact Investment funds generated median internal rate of return (IRRs) of 34% in 2017.

Expected return data is also available by sector, with agriculture expecting average returns above 20%, healthcare between 15-20%, financial services (including microfinance) between 10-15% and skilling and housing between 5-10% average returns. There was greater variability in the returns reported in the education sector, where impact investors reported returns in the wider range of 5% to 20%.

Figure 7: Expected returns by sector, 2018

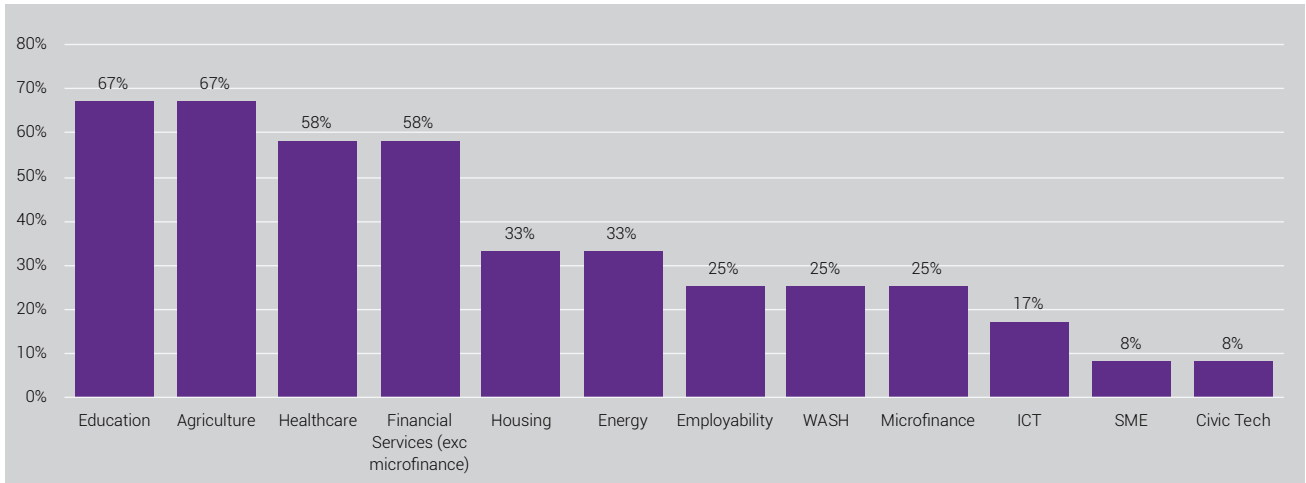


Source: Brookings Survey

## SECTOR CONCENTRATION

As a part of the Brookings survey, we asked impact investors to identify sectors that they were focused on. Education and agriculture stood out as two sectors where a majority of impact investors had made investments, followed by healthcare and financial services (excluding microfinance). These, however, do not necessarily translate into the sectors that achieve the highest investments in rupee or dollar terms, but in terms of number of investments made. Figure 8 below provides the sector-wise breakdown of investments. Impact investors could choose more than one sector.

Figure 8: Investments across sectors

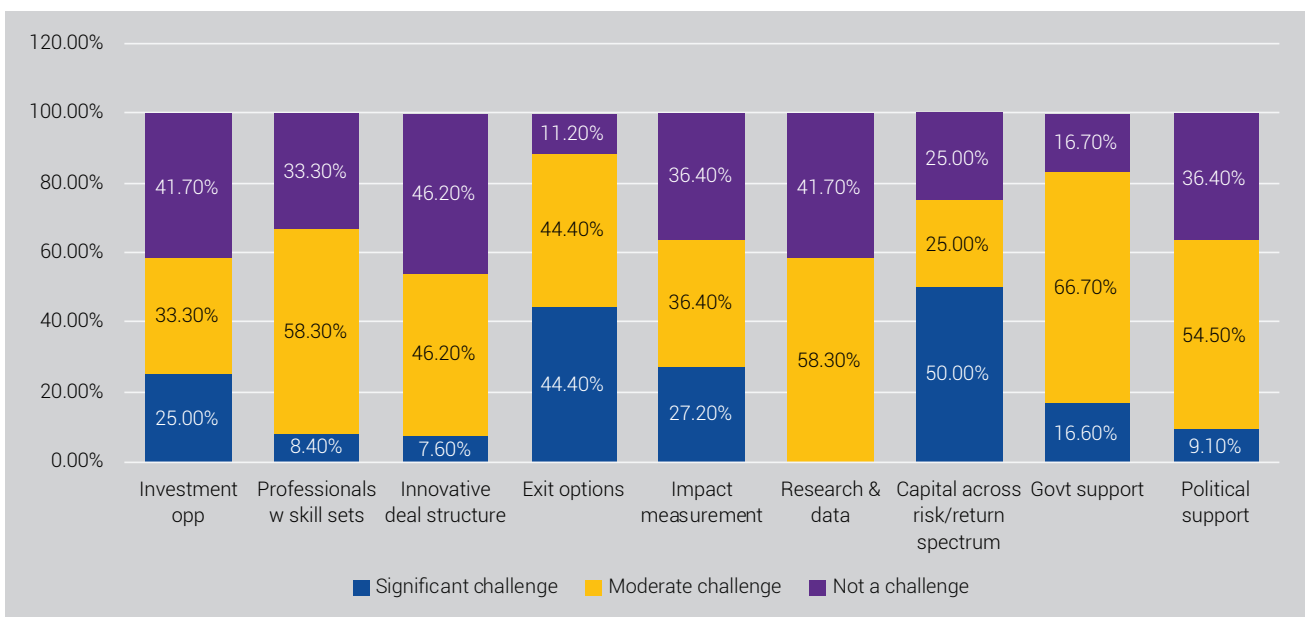


Source: Brookings Survey (\*multiple options possible)

## TOP CHALLENGES IN THE INDIAN IMPACT INVESTING SPACE

In order to understand the challenges faced by Indian impact investors, the Brookings Survey asked respondents to identify significant challenges, moderate challenges and not a challenge from a list of options. The top three significant challenges in the Indian context were appropriate capital across the risk-return spectrum, suitable exit options and impact measurement (Figure 9). Notably, government & political support, though significant, were only reported as moderate challenges by a majority of the respondents.

Figure 9: Challenges faced by Indian impact investors



Source: Brookings Survey

Table 10: Significant challenges – Global & Indian

|   | Significant Challenge India (% firms) | Significant Challenge Global (GIIN 2018) (% firms) |
|---|---------------------------------------|--|
| High-quality Investment Opportunities               | 25%                                   | 32%  |
| Impact measurement                                  | 27.20%                                | 30%  |
| Appropriate capital across the risk/return spectrum | 50%                                   | 42%  |
| Suitable exit options                               | 44.40%                                | 37%  |

Source: Brookings Data & GIIN 2018 Survey

Globally, when compared to the GIIN survey of 2018, Indian impact investors tend to have very similar challenges where appropriate capital and exit options appear as the two most significant challenges (Table 10). When looking at the largest significant challenge, appropriate capital across the risk and return spectrum stood out both globally and in the Indian context. This is particularly relevant if impact investment opportunities that credibly deliver risk-adjusted market returns are limited in India.

## 1.3 TRENDS IN IMPACT INVESTING IN INDIA

**W**hen looking at the Indian impact investment space, we set out to identify and understand larger trends within the sector. Much of the analysis in this report has been informed by the survey conducted by the Brookings team. While the majority of the survey consisted of multiple-choice options for impact investors, the subjective parts of the survey informed this section of the report.

### LARGER TRENDS IN IMPACT INVESTING IN INDIA

- **A shift towards agriculture & healthcare**

We observed a shift of impact investments towards the agriculture and healthcare sectors, which previously amounted to much smaller volumes and muted interest from funds. This is a positive trend, as these sectors represent a deviation from previously popular sectors of micro-finance and energy.<sup>19</sup> While the reasons for this shift are unclear, policy uncertainty around the microfinance sector after the 2010 Andhra Pradesh ordinance<sup>20</sup> and high capital requirements of the energy sector were noted

as enablers for this shift. **Overall, a shift towards agriculture and healthcare represents several positive externalities, given the large proportions of populations in India that remain unserved in these sectors.** It could also signal market readiness for these sectors to deploy impact capital or a broader impact definition by funds themselves to find solutions for serving these traditional development sectors.

- **The enabling role of technology in scale & scope**

Early adopters in impact investing in India focus and rely extensively on technology both as an enabler and as a solution. As more impact funds make investments beyond pure brick-and-mortar models that have been traditionally difficult to monetise given the smaller ticket sizes in the sector, tech-enabled services and solutions facilitate the ability to achieve scale and a pan-India presence. Technology differentiation also stands out, where funds look beyond business models that are easily replicable towards tech-solutions that offer services or products. **Indian impact investors often find highly disruptive and scalable business models, where tech-focussed products and services help serve a greater number of customers.**

- **Shift from passive to active investing with a focus on entrepreneurs**

A top concern for impact investors remains the need to build and support skills and talents of their investees. Many entrepreneurs lack enough business or market experience, which is where impact investors have a potential value-add. **An existing "entrepreneur challenge" was resonate within the industry, with many impact investors understanding that the long-run**

<sup>19</sup> McKinsey & Company. (2017). Impact investing: Purpose-driven finance finds its place in India.

<sup>20</sup> Indian Microfinance. (2010). Andhra Pradesh Microfinance Institutions Ordinance 2010 comes into force. Accessed June 2019.

**investment of capital is a means and not an end.** In this view, impact investors echo each other, seeing the value of finding and investing in good entrepreneurs – not just their innate entrepreneurial abilities, but their leadership capacities and ability to stay the long-course.

Unlike commercial investors, impact investors and investees are more directly involved in strategy and business development. Unlike private equity (PE) investments, impact investments require longer holding horizons, as the enterprises are often smaller in size, younger and take longer to mature. As a result, we see big impact investors investing over lifecycles of businesses and across multiple-stages in the Indian market. We also see a space building for 'patient capital' with impact investments going beyond the typical private equity or venture capital (VC) cycle of five years.

- **Importance of context and flexibility in building business models**

Many fund managers appreciate the fact that one-size-fits-all approaches are not relevant, especially when serving middle-income or poor segments. This has led to a move beyond typical

PE or VC-style functioning, both in terms of templates and time-frames. There is a stronger focus on investing in and building businesses on flexibility and context. **Impact investors serve dual roles in this, both as investees in businesses and as venture-capitalists, investing time, resources and energy in helping businesses go to scale, market and leverage technologies.**

Impact investors also spoke of the importance of investing in entrepreneurs who understood their target population and the challenges they face. In this view, many social enterprises were motivated to create businesses driven not just by market demand but also by social need. This offered an important insight – how investors and the industry have grown to understand the power of experience. For example, when investing in an education start-up, an impact investor explained that if an entrepreneur states that “as a student I went through the same thing,” a fund manager will appreciate the power of that experience. Multiple investment managers and investors echoed this sentiment. There is a sense that passive investing cannot achieve impact, which is why impact investors focus on businesses that focus on flexibility and local context.



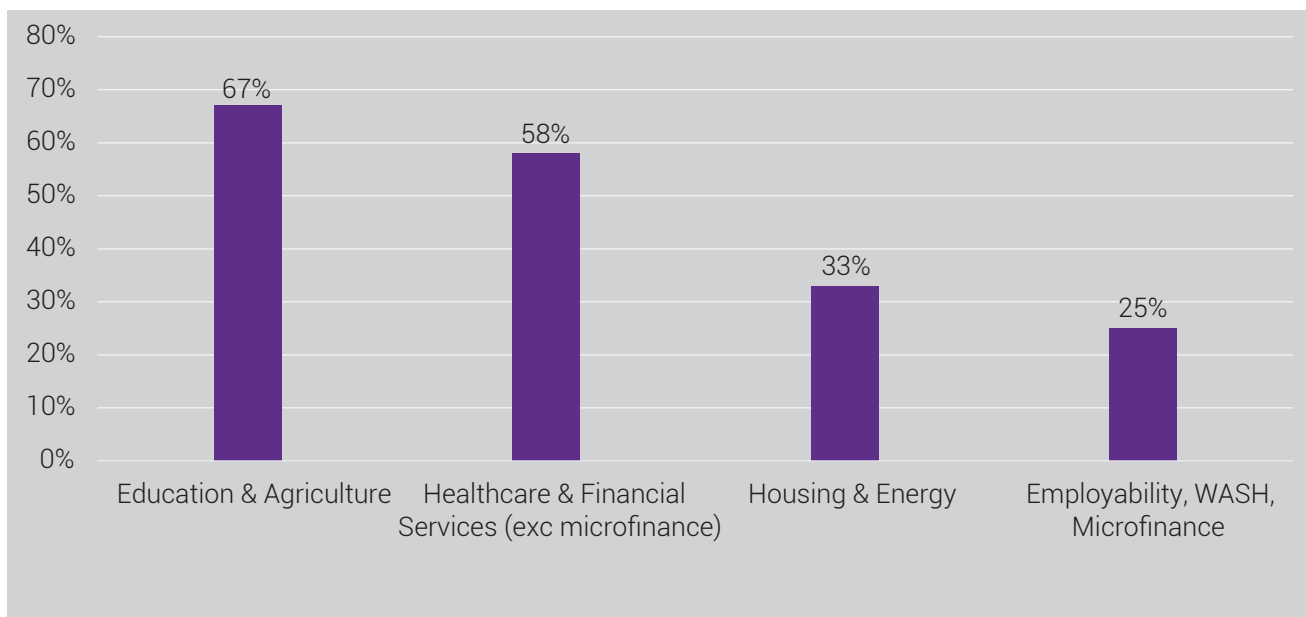
## SECTORS OF IMPACT INVESTMENT ACTIVITY

Impact investing activity in India has so far concentrated on government service-provision gaps and underserved sectors (such as health and education) that are driven by unmet customer needs. Globally, impact investing and impact bonds also engaged in interventions that were difficult for governments to test or scale or that covered sectors or areas that were typically excluded from traditional government services.

As per the GIIN 2018, financial services, energy and microfinance remain the top sectors where global impact investors deploy capital. While up until 2017, the same could be said of India,<sup>21</sup>

there is a considerable shift now. Indian impact investors have largely identified three key social issues to focus on – health, education and agriculture – followed by affordable housing, energy, employability and skilling and financial services (Table 11). It is important to note that these are sectors where most impact investors have some engagement, rather than the largest sectors in terms of amounts invested. In this section, we focus specifically on the three sectors of health, education and agriculture, as the largest sectors where impact investor interest is concentrated. We look at the key opportunities for investing, early trends on their scale and scope and the key challenges investors face.

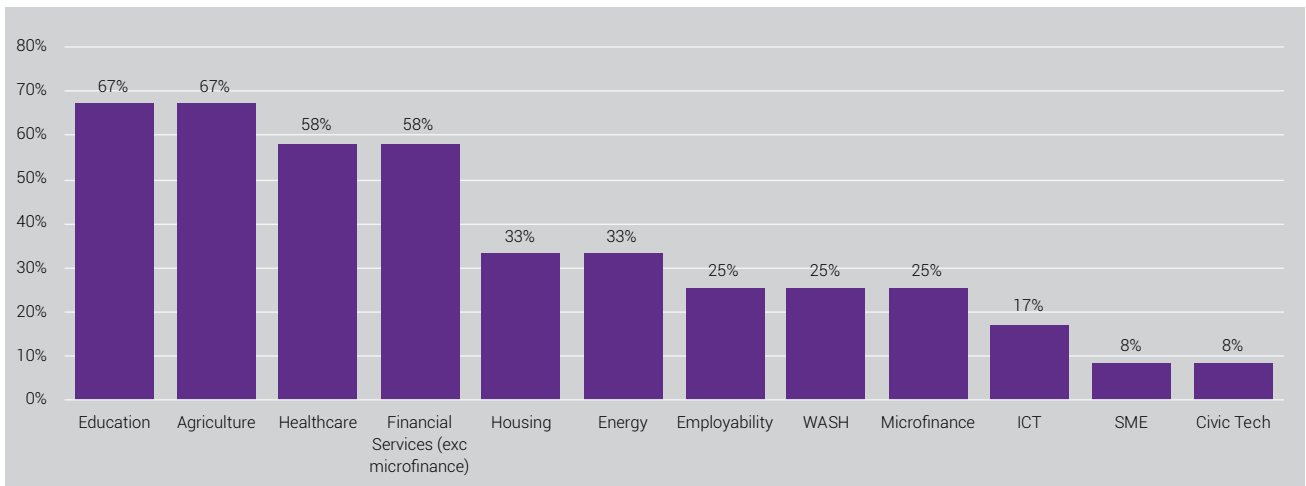
Figure 11: Top sectors for investment



Source: Brookings Data (\*multiple options possible)

<sup>21</sup> McKinsey & Company. (2017). Impact investing: Purpose-driven finance finds its place in India.

Figure 12: Sector-wise breakdown



Source: Brookings Data (\*multiple options possible)

## 2.1 HEALTH

An analysis from Duke University and the Calvert Foundation identifies key opportunities for impact investing in the health sector. Services for the poorest rural populations are likely to be best served by grant funding, while those for high-income urban populations may be met by traditional capital; impact capital, therefore, is most suited to enterprises serving low- to middle-income populations.<sup>22</sup>

Figure 13: Opportunities for impact investing in health

|             |                           | Populations  |   |  |                              |
|-------------|---------------------------|--|---|--|------------------------------|
|             |                           | Rural BoP  | Urban/peri-urban BoP                                    | Urban/peri-urban middle-income             | Urban/peri-urban high-income |
| Sub-sectors | Delivery system           | Inadequate volume<br>Infrastructure<br>Price sensitivity             | Quality for cost<br>Infrastructure<br>Price sensitivity | Quality for cost<br>Infrastructure         | Infrastructure               |
|             | Medical Device & Supplies | Last mile distribution<br>Inadequate volume<br>Price sensitivity     | Price sensitivity                                       | Price sensitivity                          |                              |
|             | Pharma                    | Last mile distribution<br>Information asymmetry<br>Price sensitivity | Information asymmetry<br>Price sensitivity              | Information asymmetry<br>Price sensitivity |                              |
|             | Payment Systems           | Information asymmetry<br>Price sensitivity                           | Information asymmetry<br>Price sensitivity              | Information asymmetry                      |                              |
|             | Mobile & Tech             | Infrastructure<br>Access<br>Price sensitivity                        | Access<br>Price sensitivity                             |  |                              |
|             | Logistics & Distribution  | Last mile distribution<br>Inadequate volume<br>Infrastructure        | Infrastructure<br>Price sensitivity                     | Infrastructure                             |                              |

Grant
 Impact capital
 Traditional capital

Source: Duke University and the Calvert Foundation, 2015

<sup>22</sup> Duke University and the Calvert Foundation. (2015). Strengthening health systems in developing countries through private investment. Lessons from the Global Health Investment Landscaping Project (GHILP).



## TRENDS IN THE HEALTH SECTOR

Globally, impact investing in healthcare represents only 5% of total assets under management, according to the GIIN 2018 impact investor survey. However, nearly half of the respondents (49%) had invested some capital in healthcare.<sup>23</sup> A review of impact investment in health in India and East Africa identified three key reasons for optimism in the sector: increasing awareness of and demand for healthcare, as technology provides access to information and the middle class grows; the increasing role of the private sector; growth in healthcare spending.<sup>24</sup> Previous research has identified challenges to impact investing in health in India, including a lack of healthcare professionals, fragmented governments and lack of viable business models serving rural populations.<sup>25</sup>

In India, the volume of impact investing deals in healthcare grew rapidly from 2010 to 2016, from zero percent of deals in 2010 to 16% in 2016.<sup>26</sup> As per our analysis, currently, 58% of all impact investors had made investments in the healthcare sector (in terms of investment interest) making it the second-largest sector, after education and agriculture, which tied with the most investments.

Many impact investors are now investing in healthcare in India, focusing on tier-two or tier-three cities, **providing secondary or specialised care facilities in an organised way (for example, specialty services such as eye-care or dental care facilities) or investing in disruptive technologies in the diagnostics market (such as ultra-sounds)**. Key focus areas in health impact investing are pathology, radiology, collecting blood samples and testing, focusing on cost-efficiency in collecting e-health or health-data.

**The healthcare sector is capital extensive with high upfront costs and capex. Furthermore impact investing in the healthcare sector is characterised by longer gestation periods and heavily reliance on technology. Due to this, investments within the sector are driven by a need to optimise time and the geographic reach**

**to bring down costs. This remains a striking feature of most of the investments we studied.**

Since a majority of healthcare investments are driven by investments in capital, investors focus on not just demand challenges, but also on scalability, branding and creating comfort in the minds of consumers. This further demonstrates the expanded role that impact investors are playing in India – moving beyond just providing capital or making investments in early-stages of businesses, to also focusing on building business models that succeed and scale.

Over the course of the interviews we conducted, several challenges of investing in the healthcare sector came to light. The biggest roadblock was direct competition from the government itself, an inherent challenge of investing in a priority development sector. In areas where the government is the key provider of services, especially when those services are free (such as in a government district hospital or primary healthcare center), low price alternatives still represent inherent costs to customers. Distribution and scale are also noted as challenges, alongside longer gestation periods and exits longer than usual investment cycles.

## 2.2 EDUCATION

Impact investors in education differ in their motivations and expectations, ranging from those who emphasise impact, to those who are primarily motivated by financial returns. Those focusing on financial returns have tended to target services aimed at users higher up the socio-economic ladder, who have the ability to pay, while impact-oriented investors focus on vulnerable beneficiaries, with little expectation of returns.<sup>27</sup>

According to a report by D. Capital and Open Society Foundation, funders in the education space could look beyond school infrastructure by focusing on opportunities to expand social impact and returns. This could include, for example, the provision of low-cost tablets

<sup>23</sup> The GIIN. (2018). Annual Impact Investor Survey 2018.

<sup>24</sup> Duke University. (2015). Opportunities and Challenges for Global Health Impact Investors in India and East Africa.

<sup>25</sup> Duke University. (2015). Strengthening health systems in developing countries through private investment.

<sup>26</sup> McKinsey & Company. (2017). Impact investing: Purpose-driven finance finds its place in India.

<sup>27</sup> D. Capital Partners & Open Society Foundation. (2013). Impact investing in Education: An overview of the current landscape. ESP Working Paper Series.



that could revolutionise textbooks and office management systems, having larger-scale impact on improving quality, access and equity. Impact investors in education could also gain considerably by demonstrating a learning orientation and seeking innovation through collaborative processes that draw on diverse expertise and experience.<sup>28</sup>

## TRENDS IN THE EDUCATION SECTOR

Globally, impact investment in education is still in its early years and represents a tiny proportion of spending overall. According to the GIIN annual impact investor survey in 2018, just 4% of assets under management were allocated to education, or approximately \$9 billion, relative to the \$4.7 trillion spent annually on education worldwide.<sup>29,30</sup> Impact investments in education are characterised by small deal sizes, with direct investments typically ranging between \$0.5 million and \$5 million. Furthermore, **investors' role in financing the education sector hasn't only been small in size but also limited in scope, largely focusing on school infrastructure programs and, to a lesser extent, teachers (such as teacher training schemes)**. Globally, impact investment has been sharply divided, between market-rate investors who target middle- and upper-class populations and those with an impact-first attitude who target populations at the base of the socio-economic pyramid.<sup>31</sup>

Social enterprises in education have two main methods of selling their products: directly to consumers, where it is easier to sell to high-income populations, or to other businesses, such as schools or the government.<sup>32</sup> Social enterprises in India have increased in recent years, with organisations across a range of sectors.<sup>33</sup> Social enterprises in education in India cluster into three groups: core education, such as affordable private schools; the parallel education sector, such as tutoring and test preparation, and ancillary education, such as data analytics

and assessment.<sup>34</sup> In the education sector, social enterprises secured an estimated \$52 million in equity deals from impact investors from 2010-2015.<sup>35</sup> Over half of these deals were for business models focused on school management services, with a further 14% for school financing. Technology-based platforms have also been a focus of impact investments in education.<sup>36</sup>

According to analysis of the impact investment market in India by McKinsey, education made up a larger proportion of the deals in 2016 than in 2010, growing from 8% of deals to 13%. However, these remain small relative to the overall market: while the total value of impact investments grew from \$2.05 billion in 2011-13 to \$2.6 billion in 2014-16, education investments made up a smaller proportion of this total in the later period, dropping from 2% to just 1%.<sup>37</sup> According to the data collected by the Brookings team, education now represents the largest impact sector, alongside agriculture, in terms of interest from Indian impact investors. Nearly 67% of the respondents in our survey stated that they made impact investments in education. Typical models in Indian impact investing in education are either business-to-business (portfolio company sells to schools) or business-to-customer (portfolio company delivers educational services directly to students), with a majority of investors moving away from typical non-profit school models towards **delivering disruptive education services enabled through technology or market segmentation**.

Like healthcare, since the government provides free education to students and a majority of low-income households send their children to government schools, direct competition comes from government services. Typical impact investments in the education space hence face difficulties in differentiating educational products or services in a competitive market that offers alternatives for free. The need for differentiation

<sup>28</sup> Impact investing in Education: An overview of the current landscape. ESP Working Paper Series, D. Capital Partners & Open Society Foundation, 2013.

<sup>29</sup> The GIIN. (2018). Annual Impact Investor Survey 2018.

<sup>30</sup> UNESDOC. (2019). Global education monitoring report: Migration, displacement and education: building bridges, not walls.

<sup>31</sup> D. Capital Partners & Open Society Foundation. (2013). Impact investing in Education: An overview of the current landscape. ESP Working Paper Series.

<sup>32</sup> Malani, S. (2016). Impact Investing in K-12 Education in India.

<sup>33</sup> British Council. (2015). Social enterprise: An overview of the policy framework in India.

<sup>34</sup> Malani, S. (2016). Impact Investing in K-12 Education in India.

<sup>35</sup> Malani, S. (2016). Impact Investing in K-12 Education in India.

<sup>36</sup> AVPN. (2017). Funding education with impact: a guide for social investment in India.

<sup>37</sup> McKinsey & Company. (2017). Impact investing: Purpose-driven finance finds its place in India.

becomes imperative, as a premium for a school or service can only be demanded when parents see some value in those products, and parents are less willing to pay for a service for which other cheaper or free alternatives are available; this is particularly true for poor or middle-income beneficiaries. Other challenges highlighted by impact investors include selling services or products to schools, given the existing competition among service-providers, and getting repeat business from schools. All this further leads to the issue of scale and the need to convert or differentiate products so they fall into a “must-have” category in a long list of priorities that low- or middle-income households face.

The education sector is also rife with regulatory and structural challenges. Traditionally, the education sector in India falls into the purview of the government and non-profit space. Policy in India has always treated priority sectors, such as education, as sacred, protecting it from for-profit organisations. This creates a hostile environment for education entrepreneurship, creating challenges for impact investors that have expectations of financial or equity returns. While creative structuring has allowed for-profit portfolio companies to get around this, it is difficult for investor money to go into a profit-making business with non-profit customers such as schools (which, in many cases, are customers for these companies and are mandated to be non-profit). **Many Indian impact investors have also made investments outside of the school space to avoid issues related to the non-profit status that schools or educational institutions must maintain, yet there is consensus that there remain few scalable solutions in the non-school space.**

Given the inherent nature of the education sector where business models and markets break due to the larger set of stakeholders involved, impact investors realise the difficulties of operating in the education space. In many cases, the purchasers of services are administrators or principals in schools, decisions are taken on behalf of children by parents and the services are delivered via teachers. The multitude of stakeholders make education markets

complicated and business challenges remain. Going forward, what remains to be seen is that given the changing nature of the sector, how investors will innovate to deliver differentiated products and services that will deliver quality education at scale.

## 2.3 AGRICULTURE

**A**griculture remains one of the top priority sectors of the Indian economy, employing nearly 50% of our nation's unskilled, rural, and informal workforce. Agriculture in India is, however, bound with challenges - from highly fragmented landholdings and low purchasing power to support prices and subsidies in fertilisers and electricity. Agriculture is also a market ridden with politics and low asset bases. Globally, impact opportunities in agriculture extend to a wide range of activities. Typically, impact investors have invested either in the form of real estate investments in sustainably managed farmlands, debt investments for farmers, cooperatives and food enterprises, and equity investments in retailers and agricultural technologies focused on the efficient use of energy, inputs, and natural resources. As an investment theme, in a country as large as India, agriculture provides several entry points. From investments in improved access (either in the form of markets, farmer inputs, information services and capital) and efficient employment to services that help mitigate agricultural price volatility and better management of natural resources.<sup>38</sup> Through these wide asset classes, impact investors may activate a fuller range of investment assets, at different scales, in various geographies and in pursuit of multiple returns (social, financial and environmental).<sup>39</sup>

### TRENDS IN THE AGRICULTURE SECTOR

Globally, investment in food and agriculture (as in India) represented the top spot (among the top three sectors), with 37% of investors listing these as the sectors where they deployed capital in 2017.<sup>40</sup> Further, 57% of respondents professed at least some allocation to food and agriculture, more than to any other sector, although it

<sup>38</sup> EC External Services Evaluation Unit. (2009). Outcome and Impact Level indicators – agriculture and rural development. Working Paper.

<sup>39</sup> Lang, K., Humphreys, J., Rodinucic, A. (2017). Impact investing in sustainable food and agriculture across asset classes. Financing Resilient Value Chains through Total Portfolio Activation.

<sup>40</sup> The GIIN. (2018). Annual Impact Investor Survey 2018.

accounted for just 6% of total asset allocations.<sup>41</sup> Agriculture remains the top sector of interest amongst impact investors in India, tied with education. Nearly 67% of all impact investors interviewed by the Brookings team stated that agriculture was their top sector of investment activity and interest.

In our research, AgTech or technology-driven agricultural investments stood as a new but emerging arena for early-stage impact investment. However, given the nascent stage of these investments and differing levels of technology-take-up, the future of these instruments and services remain unclear. Within agriculture, a variety of investment types exist, from agricultural loans and direct equity investments in farmland to management of agricultural profits or income. **Given the uncertainty in the farming profession, which remains highly dependent on weather and prices, impact investors in India usually invest in companies that help reduce uncertainty levels in farming.** Overall, funds typically focus narrowly on AgTech, farm production, or food and agriculture-themed businesses. Most

investments had direct connections to farmers or agri-business participants and helped solve one or all of the following challenges:

- Farming profitability
- Sustainable farming
- Improving access to markets

Investors in the agricultural sector spoke of issues in raising follow-up capital or getting co-investors on board. An issue they stated to have reduced significantly in the last one to two years where generalist venture capitalists have woken up to the potential of the sector. This has largely been driven by better quality enterprises and businesses. Despite its early stage, a few learnings have emerged. Impact investors have difficulties in enabling technology adoption, since small farmers are rarely the first adopters of new technologies or solutions. Due to this, we find Indian impact investments in agriculture focusing on portfolio companies that deliver solutions aimed towards high or mid-size farmers. Only one of the funds interviewed currently focused on smallholder or marginal farmers, building models around technology adoption and take-up.

<sup>41</sup> The GIIN. (2018). Annual Impact Investor Survey 2018.



## A NEW MECHANISM FOR IMPACT INVESTING: BLENDED INSTRUMENTS & IMPACT BONDS

### 3.1 BLENDED INSTRUMENTS

Impact bonds emerged out of the broader tradition of payment by results (PbR), in which payments are made only when pre-agreed outcomes or outputs are achieved and verified. This includes a variety of different mechanisms, depending on which kind of entity takes on the financial risk. For example, in the case of results-based aid (RBA), the risk is taken by the government, while in results-based financing (RBF), service providers take on the risk.<sup>42</sup> In an impact bond, the financial risk is taken by an investor, who provides upfront capital to a service provider to deliver an intervention. If outcomes are achieved, payment is made to the investors by the government (in a SIB) or a third party (in a DIB).

Other instruments have been designed to promote a similar approach for social enterprises, for example, Social Impact Incentives (SIINC) which use premium payments to reward outcomes achieved by social enterprises, and the Social Success Note (SSN), in which entrepreneurs access concessionary

loans, and payments from a foundation to investors are triggered in the case of verified outcomes, while the principal is repaid by the social enterprise.<sup>43,44</sup>

#### Example<sup>45</sup>: Financing low-fee private schools in India

The Michael and Susan Dell Foundation (MSDF) have piloted variable interest loans, with reduced interest rates in the case of improved student outcomes. MSDF loaned \$2 million to the Indian School Finance Company (ISFC), which then provides loans to schools. Student outcomes are tracked for recipients of finance from ISFC: increases in test scores have the potential to trigger up to a 10% rebate on the school's loan, and the interest payments of ISFC are reduced in turn.

### 3.2 HOW IMPACT BONDS WORK

Impact bonds combine elements of payment-by-results contracting, public-private partnerships, and impact investing.<sup>46</sup> In an impact bond, an investor provides upfront capital to a service provider, who delivers

<sup>42</sup> Gustafsson-Wright, E., & Gardiner, S. (2016). Using Impact Bonds to Achieve Early Childhood Development Outcomes in Low-and Middle-Income Countries. Washington: Brookings Institution.

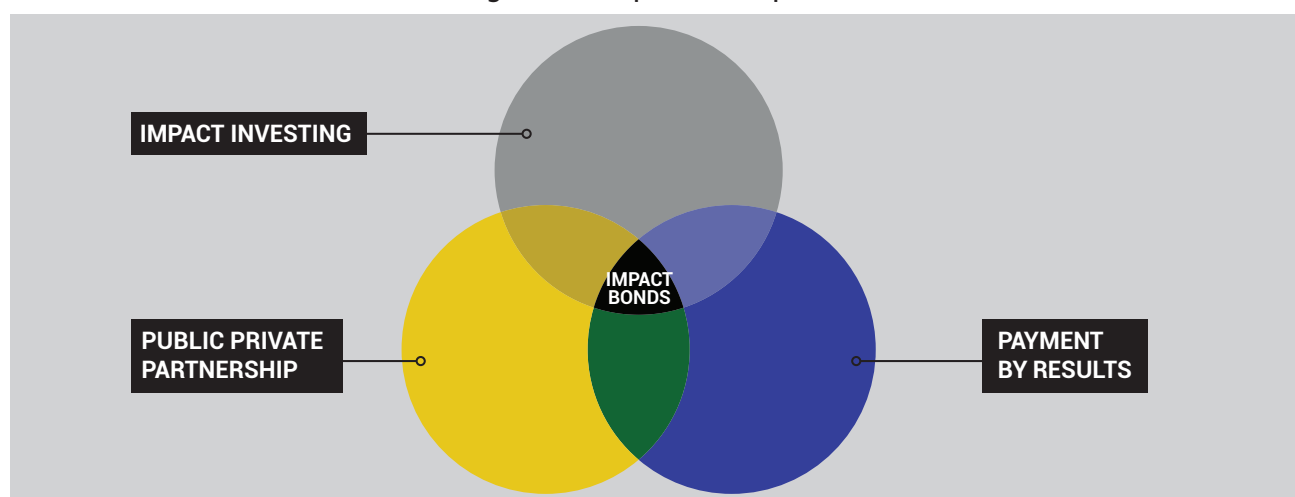
<sup>43</sup> Roots of Impact. (2016). Social Impact Incentives: Enabling high impact social enterprises to improve profitability and reach scale.

<sup>44</sup> Yunus Social Business. (2015). Introducing the Social Success Note.

<sup>45</sup> Rangwala, R. (2018). A New Impact Investing Model for Education. Stanford Social Innovation Review. January 17.

<sup>46</sup> Gustafsson-Wright, E., Boggild-Jones, I., Segell, D., & Durland, J. (2017). Impact bonds in developing countries: Early learnings from the field. Center for Universal Education at Brookings, 81.

Figure 14: Impact bond primer



services to the targeted beneficiary population. If a set of pre-agreed metrics are achieved, the outcome funder will repay the investor their upfront capital, plus a return. In cases where results are not achieved, the investor typically stands to lose their investment, while the outcome funder pays nothing. In addition to these central roles, many impact bonds have also involved intermediary organisations, which support transaction structuring and raising capital<sup>47</sup>, as well as evaluators, who verify the achievement of results.

Ultimately, the actor who holds the contract with the outcome payers plays an important leadership role to ensure that the predetermined outcome can be achieved. For an impact bond to succeed, stakeholders have to be aligned on the defined outcomes of the bond. Impact bonds are often first commissioned to have an impact where there is a gap in current social services. They offer opportunities to implement innovative programming without assuming any monetary risk or making significant shifts to current service provision structures. **When investment is tied to outcomes, rather than activities, service providers gain greater flexibility to innovate and improve their programs, resulting in outcomes that really matter. Governments and taxpayers transfer the risks of program performance to the private sector and enhance the value for money of a given intervention, by clearly specifying the cost of the measurable outcomes, instead of the inputs, of any program ex-ante.**

### 3.3 BASIC CRITERIA

Impact bonds are a novel way of financing social services, with the potential to direct spending towards results and to improve service provider capacity. There is a range of facilitating factors that are likely to be necessary for the success of an impact bond structure. These include the **legal and political feasibility of contracting an impact bond in a particular context, as well as the administrative capacity of a potential outcome funder, and the capacity of potential service providers to collect and manage data and respond to feedback to adapt service provision. Data availability is also crucial: this includes data on the outcomes of interest, as well as cost data on the price of an intervention, or on the cost associated with inaction. Finally, to engage in an impact bond, where upfront capital is required, there needs to be an investor appetite for the project.**

### 3.4 GLOBAL LANDSCAPE

As of June 2019, 163 impact bonds have been contracted around the globe. The majority of these (150) have been in high-income countries, while only 13 have been contracted in developing countries (nine DIBs and four SIBs). More than a third of the impact bonds to date (67) have been contracted in the United Kingdom, 25 in the United States, 11 each in Australia and the Netherlands, nine in Portugal, and four each in Canada and France. Several other countries have contracted between one and three impact bonds.

<sup>47</sup> Gustafsson-Wright, E., Gardiner, S. & Putcha, V. (2015). The potential and limitations of impact bonds: Lessons from the first five years of experience worldwide.

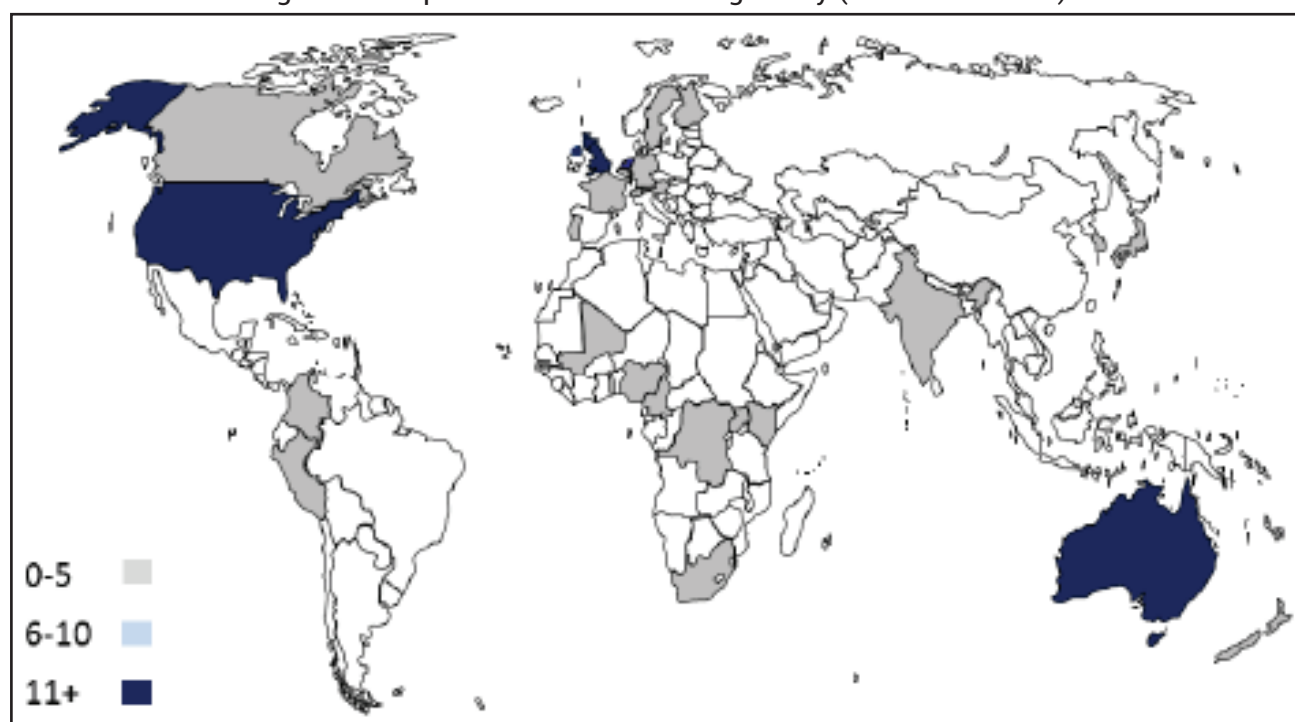


Most of these impact bonds have been contracted in social welfare and employment (56 and 50, respectively), with 25 contracted for health, 18 for education, 11 for criminal justice, two for the environment and one for agriculture.

Table 15: Impact bonds around the globe

|                               | Social impact bond | Development impact bond |
|-------------------------------|--------------------|-------------------------|
| High-income country           | 150                | 0                       |
| Low- or middle-income country | 4                  | 9                       |

Figure 16: Impact bonds contracted globally (as of June 2019)



### 3.5 POTENTIAL AND LIMITATIONS

SIBs and DIBs have largely provided prevention or early intervention services ('spend earlier to save later') and help beneficiaries avoid worsening outcomes. Impact bonds have been used as a tool to fund interventions where inputs are complex but outcomes are simple to measure. In high-income countries, social impact bonds have focused on providing small-scale interventions to specific target groups of typically marginalised populations. This differs for **low or middle-income countries, where core government service areas, such as health and education, represent the largest area of interest for impact bonds – although impact bonds in employment have attracted interest in both developed and developing countries.** This indicates priority areas as well as differences

in need across countries with different income levels. High-income countries may have smaller populations that face issues relating to malnutrition, sanitation and health.<sup>48</sup>

Since the impact bond field is relatively young, evidence is still emerging on the success of the existing crop of contracts. Additionally, there is currently no rigorous evaluative evidence that compares this funding mechanism to either traditional payment-by-results, or to input-based financing. For this reason, it is impossible to isolate the "impact bond-effect" (the impact of the financing mechanism) from the success of the intervention itself. However, several potential benefits have been identified from the literature, which we characterise as "10

<sup>48</sup> Gustafsson-Wright, E., Boggild-Jones, I., Segell, D., & Durland, J. (2017). Impact bonds in developing countries: Early learnings from the field. Center for Universal Education at Brookings, 81.

common claims” made about impact bonds.<sup>49</sup> More evidence exists to support some of these claims than others: the ability to focus on outcomes, to drive performance management, to incentivise collaboration, to build a culture of monitoring and evaluation, to encourage investment in prevention, and to reduce risk for the government to find support. On the other hand, limited evidence exists thus far to support the claims that these instruments can crowd in additional private funding, support experimental interventions, achieve scale or sustain impact.

### 3.6 IMPACT BONDS IN INDIA

**W**hile the impact bonds market in India is still young, it is arguably the most active among developing countries. With three contracted deals and several more in design, there is an appetite for using impact investment to drive the achievement of outcomes across a range of social sectors. A 2016 white paper from the IIC suggests a range of potential SIB focus areas, including health and sanitation, increasing power reach and reducing malnutrition.<sup>50</sup>

The investment environment for impact bonds in India remains largely driven by international foundations on the investor and outcome-funder side (for example, the UBS Optimus Foundation has been the investor for all three of the contracted deals). However, the Quality Education India DIB includes Tata Trusts, a domestic outcome funder. Much movement has built around creating a landscape and

supporting ecosystem, this includes the setup of Social Finance India, which hopes to serve the function of an investment intermediary in creating pay-for-success and impact bond products in the market.

#### Utkrisht Maternal and Newborn Health Impact Bond

The Utkrisht impact bond for maternal and newborn health was the second DIB to launch in India, in November 2017.<sup>51</sup> This DIB in the state of Rajasthan, seeks to improve the quality of private healthcare facilities, to reduce maternal and neonatal mortality rates, with the potential to save the lives of up to 10,000 women and newborns over five years. Two service providers, the Hindustan Latex Family Planning Promotion Trust (HLFPPT), and Population Services International (PSI), will work with up to 440 facilities to help them work towards accreditation as quality maternity care providers.<sup>52</sup> Palladium, the intermediary organisation, will work with providers to help them meet these standards, while \$3 million of upfront capital for the services was provided by UBS Optimus Foundation.

In addition to the capital from UBS Optimus, Palladium, PSI, and HLPFPT will also contribute 20% of the total upfront capital. If the service providers are successful at readying the facilities for accreditation, outcome payments will be made by USAID and Merck for Mothers. The total potential outcomes payment is \$18,000 per facility, from an outcomes fund of \$8 million.

<sup>49</sup> Gustafsson-Wright, E., Gardiner, S. & Putcha, V. (2015). The potential and limitations of impact bonds: Lessons from the first five years of experience worldwide.

<sup>50</sup> Impact Investors Council. (2016). Social Impact Bonds (SIBs) and representation for requisite changes to facilitate SIBs in India. White Paper.

<sup>51</sup> Gustafsson-Wright, E. & Boggild-Jones, I. (2017). Rallying behind maternal and newborn health: A new impact bond launches in India.

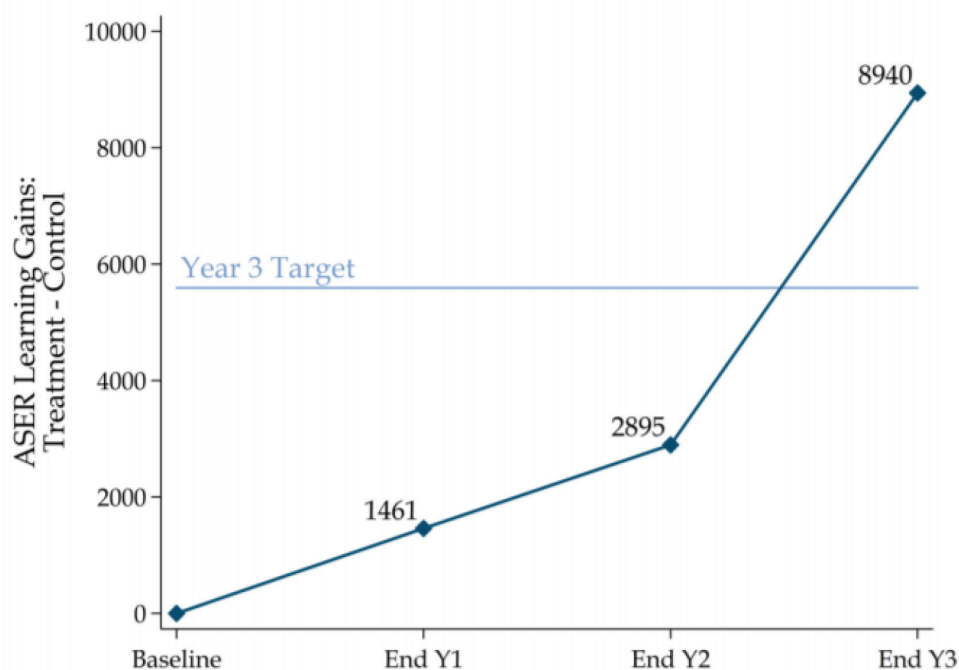
<sup>52</sup> USAID. (2017). The Utkrisht impact bond.

## Educate Girls Development Impact Bond

The first DIB for education, the Educate Girls DIB, was launched in Rajasthan in 2015, and closed after three years in 2018. The service provider, Educate Girls, targeted children across 166 public schools in the Bhilwara District, identifying out-of-school girls and encouraging enrolment, as well as delivering a child-centric curriculum to boys and girls three times a week. The investor, UBS Optimus Foundation, provided upfront capital of approximately \$270,000, and received a 15% internal rate of return from the outcome funder, the Children's Investment Fund Foundation (CIFF).

The program enrolled 768 out-of-school girls, while the learning intervention reached an estimated 7,300 children. IDinsight evaluated the results using validated administrative data to track enrolment, as well as a clustered randomised controlled trial (RCT) to measure learning outcomes. Against a target of 79% enrolment of out-of-school girls, the final result was 92% enrolment. This rose steadily each year, from 38% in year one to 73% in year two. The learning outcomes proved more difficult to achieve: the goal was to increase the grade levels across English, Math and Hindi compared to a comparison group. While the target increase was 5,592 total grades, only 1,461-grade improvements were recorded in year one, and 2,895 in year two (Figure 17). The final grade improvements compared to the control group stands at 8,940, or 160% of the target.

Figure 17: The Educate Girls DIB: Learning gains  
Aggregate Learning Gains (Treatment-Control) by Year



Source: IDinsight (2018)<sup>53</sup>

In this DIB, the learning outcomes accounted for 80% of the outcome payment, against just 20% for enrolment. Educate Girls made changes to their program delivery, to ensure that improvements were made in response to lower-than-expected learning outcomes.<sup>54</sup> These changes included increasing the number of teaching sessions, aligning teaching groups to competency levels, and emphasising personalised learning. Providing a focus on outcome metrics, and with performance management support from the project manager, Instiglio, the Educate Girls team were able to respond to the information on learning outcomes, and adapt their provision to improve results.<sup>55</sup>

<sup>53</sup> IDinsight (2018). Technical Report

<sup>54</sup> Sturla, K., Shah, B. & McManus, J. (2018). The Great DIB-ate: Measurement for Development Impact.

<sup>55</sup> Boggild-Jones, I. & Gustafsson-Wright, E. (2018). World's first development impact bond for education shows successful achievement of outcomes in its final year.



## Quality Education India Development Impact Bond

The newest impact bond in India launched in September 2018. This contract for education builds off the learnings of the Educate Girls project, but on a more ambitious scale, with the potential to improve learning outcomes for over 300,000 children in grades 1-5 in Delhi and Gujarat over the course of four years.

The Michael and Susan Dell Foundation is the anchor outcome funder, alongside a consortium of funders convened by the British Asian Trust, including Tata Trusts, Comic Relief, the Mittal Foundation and British Telecom. Multiple service providers will provide different interventions, to expand the knowledge base on the differing costs of achieving outcomes. For the first year, three service providers delivered interventions - Gyan Shala, the Society for All Round Development (SARD), and the Kaivalya Education Foundation (KEF) – while a fourth implementer, Pratham Infotech, will also be engaged from year two onwards. Gyan Shala will operate approximately 340 learning centres for children in slums in Ahmedabad and Surat, while the SARD will deliver two intervention models: a remedial program in 30 schools, and a teacher training program in 100 schools (with an additional 100 added each year), both in North Delhi. KEF will provide leadership development training in 216 schools in Ahmedabad for the head teacher, as well as for one literacy and one numeracy teacher. Pratham Infotech will deliver the Mindspark adaptive learning software to students in Uttar Pradesh. Dalberg will provide performance management for the service providers.

As with the first two impact bonds in India, UBS Optimus Foundation will provide upfront capital for the service providers – with a risk investment of \$3 million. However, instead of receiving repayment in the final year of the contract, in this model outcomes will be assessed each year, with repayments recycled into the next year of the program, thus reducing the amount of capital required upfront. Gray Matters India will evaluate learning outcomes relative to a comparison group for each service provider, using an assessment developed specifically for the DIB. With three service providers offering four different interventions, the DIB also has the potential to gather information on the cost of achieving outcomes, in order to build out a rate card of prices for education outcomes.

There are no readily available legal frameworks to anticipate and address legal challenges of impact bonds in India. In order to avoid risks of failing local legal compliance, it is important to discuss what laws and regulations govern impact bond-type contracting in the Indian context.

Since impact bonds refer to a form of results-based contracting, such forms of contingency-based contracts are allowed under the Indian Contract Act, 1872. In this view, all contracts (whether between the government or private entities) depend on the terms and relevant bidding requirements. Under the Contract Act, the government may sign a contract with an investor through three processes - competitive bidding, competitive negotiation or by Swiss challenge. Competitive bidding involves a public bid process to select service providers based on their financial and technical capabilities. The rules of competitive bidding are framed by the Central Vigilance Commission. Competitive negotiation involves the government inviting proposals for specific service objectives and is often done for social sector projects. The Swiss Challenge approach refers to proposals being received by governments from private participants *suo moto*. Impact bond investors can sign contracts with government departments through any of the above-mentioned bidding processes.

Foreign entities may set up a presence in India by establishing liaison, project or branch offices, wholly owned subsidiaries or joint ventures. Different rules framed by the Reserve Bank of India (RBI) and the FEMA (Foreign Exchange Management Act) 1999 must be adhered to. Social Venture Funds and Section 8 non-profit companies may also be set up by foreign bodies in India.

Once investors and government entities have officially signed a contract, several conditions are permissible under law that allow for intermediaries or service providers to be contracted. AZB & Partners advise intermediaries to be set up as registered bodies in India. Intermediaries may act as financial or non-financial advisors depending on the nature of the impact bond contract. The Contract Act also allows intermediaries to choose relevant service providers for further contracts. However, the choice of the service provider may be subject to the terms of the government contract. This includes necessary disclosure to relevant government entities prior to a bidding process. The government may also set basic eligibility criteria for private contractors during a bidding process. This could mean accepting service providers (that intermediaries contract) that belong to a specific sector or have a proven track record, for example.

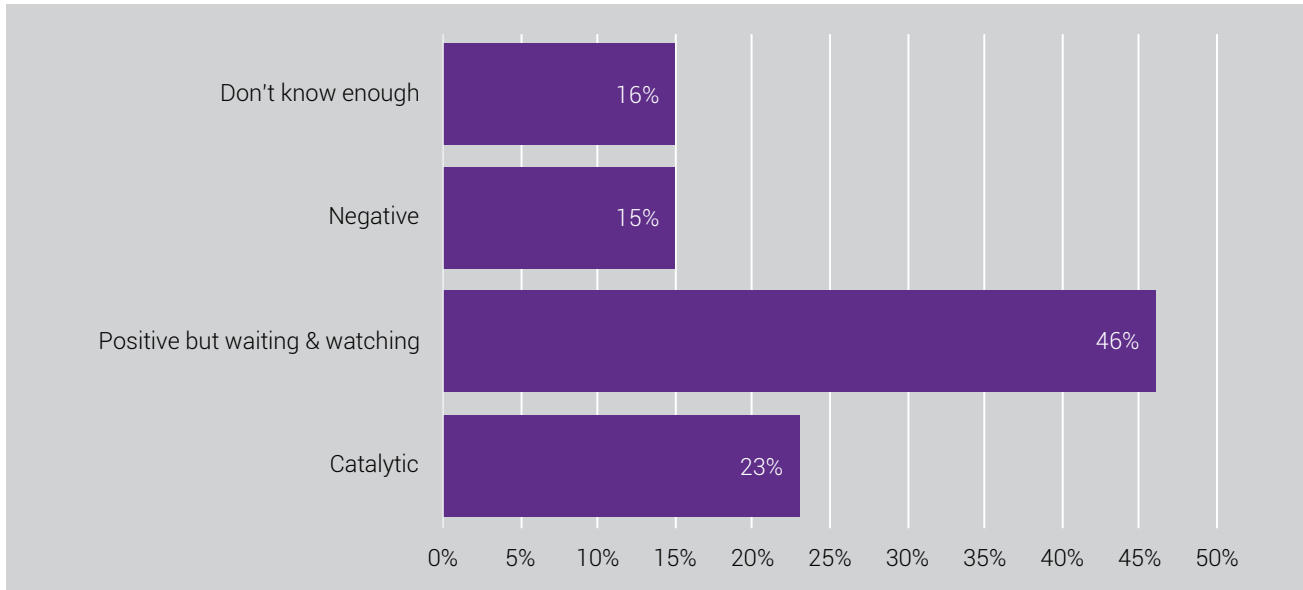
Provisions in the law also allow overcoming issues related to annual budgeting. Governments can pay private parties in the form of contractual payments (that may be advance, progress or final payments). Contract law allows for governments to get into multi-year payment or budgeting contracts or till the time the validity of the contract expires. If the government fails on its contractual requirements, penal consequences could be imposed by the private entity on the government. Public procurement laws also allow for monitoring of government contracts through external agencies or independent third parties if they are based on a "standardised scale." Governments and private parties may mutually decide on third-party evaluators and can choose to set aside a certain percentage of costs of the project for evaluations.

<sup>56</sup> Instiglio. (2014). Legal Road Map for Social Impact Bonds in Developing Countries. Instiglio (a non-profit intermediary involved in several impact bonds globally, including the Educate Girls DIB in India) undertook a research project of the legalities under which impact bond contracts can operate across seven countries. One of the countries covered included India, where AZB & Partners provided a roadmap and analysis of different laws under which SIB or DIB contracts may fall. Our analysis offers recommendations based on Instiglio's analysis in order to understand, mitigate and calculate legal risks in the context of the Indian jurisdiction.

## 3.7 BARRIERS AND CHALLENGES TO IMPACT BONDS IN INDIA

During our interviews, impact investors expressed interest in impact bonds; however, many stakeholders were either negative or did not know enough about them (Figure 18 below).

Figure 18: Interview results – Impact bonds & impact investor perspectives



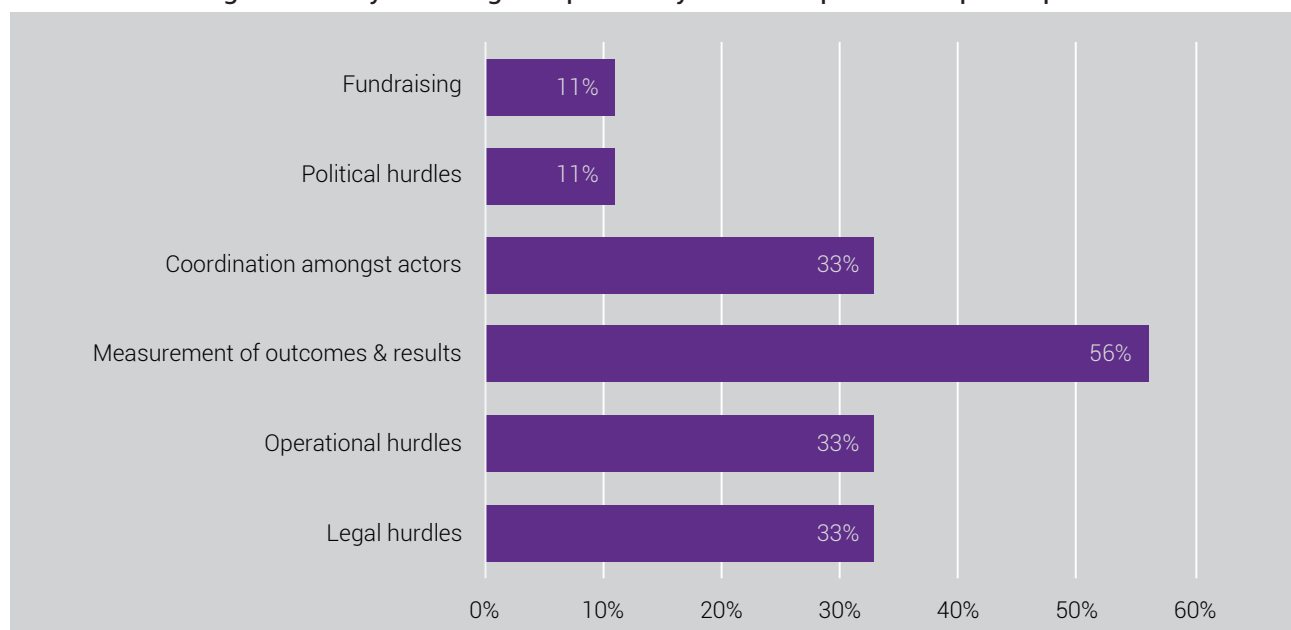
Source: Brookings Survey

The real hurdle for impact bond development in India, according to our respondents, is making sure early impact bond contracts provide a proof of concept and prove financially viable. Showcasing investment validity and impact achievement remain top priorities for stakeholders involved in impact bonds. From the supply side, service providers such as Educate Girls have started building momentum towards the development of an impact bond market in India. Educate Girls and the others that have been selected to engage in impact bond projects, have some experience with monitoring and evaluation, a critical element of an impact bond. For example, Educate Girls had some experience with conducting outcome evaluations of their projects, which was a contingency of previous funding. The participation of UBS Optimus Foundation in both the Educate Girls and Utkrisht impact bond indicates interest from international investors but in order to build momentum

amongst Indian investors, the financial case for impact bonds needs to be strengthened.

Interviews with key stakeholders revealed issues related to the highly quantitative and technical nature of impact bond management and assessment and high costs of evaluations make it difficult for impact investors to align their double bottom line of social impact and monetary return, given the current market in India. Some expressed that the impact bond model must be further tested, and more evidence must be collected before impact bonds attract Indian investment. **Cost of evaluations must be kept reasonable, so as to not become an inhibiting factor for future impact bond success. In fact, over the course of our interviews, a top challenge identified by current impact bond stakeholders in India was the measurement of outcomes and impact** (Figure 19).

Figure 19: Key challenges reported by Indian impact bond participants



Source: Brookings Survey (\*multiple options possible)

Globally, the level of investor involvement has varied in impact bonds. Some investors have taken active roles, for example, Bridges Fund Management in the United Kingdom is deeply involved in many of their impact bonds, where they lead the project from the initial development stages to day-to-day performance management. They have developed in-house capacity to liaise with the government and service providers, avoiding costs incurred by engaging an intermediary. Service providers in India are primarily motivated to participate in impact bonds because of access to capital, allowing them to operate and continue providing services. With the presence of stable and long-term funding, they can focus on the creative implementation of their programs and efficient delivery. An increased focus on service implementation paired with close coaching and support from other impact bond stakeholders may encourage performance improvement and, in turn, a better chance at reaching the desired outcome. To be ready to scale through an impact bond, **service providers in the future will need a strong operating model, a thorough understanding of what it will take to adapt and expand the target intervention, familiarity with social impact assessment, and experience of working with partners. Local community knowledge and relationships will also be of high importance.**

Public budgeting remains a crucial element for consideration in an impact bond model. For example, the budget structure remains crucial in

SIBs, since they are multi-year investments; thus, the government, as the outcome funder, needs to be able to spread appropriated funds throughout fiscal years and issue outcome-based payments. However, this can be a challenge, as usual status-quo operations within government departments tend to tie fiscal expenditures on a yearly basis. Therefore, in order for a SIB to be feasible, there should be legal mechanisms that allow for future payments contracting and allow for payments to not be contingent upon political fluctuations. For example, in the case of the U.K, the Cabinet Office Centre for Social Impact Bonds within the Social Investment Finance Team and the Big Lottery Fund have helped overcome the challenge of annual budgeting obligations. Similarly, in the U.S during the Obama administration, the White House requested funding for impact bonds (Pay for Success as they are known in the US) in each White House budget request since the 2012 fiscal year. Notably, the budget requests since the 2014 fiscal year have included a request for a \$300 million Pay-for-Success (SIB) Incentive Fund, which is modeled after the U.K.'s Social Outcomes Fund and intended to smoothen savings across levels and departments of government.

Impact bonds will likely face fewer barriers in India if they are used to expand funding in areas where the government wishes to improve the quality of existing services, and/or reduce the inequality of access. Political economy can make it more difficult to implement in areas that are traditionally provided by the public sector.

## 3.8 OUTCOMES FUNDS

One of the main critiques of the impact bond mechanism has been the time and cost associated with structuring the deals. This is an important point and should be considered critically. However, it is important to note that due to the transparency brought through the contracting process, costs in impact bonds are often made more explicit than in traditional grant-making based on inputs, or traditional results-based financing. However, in some cases, the number of actors involved, as well as the challenge of setting prices and negotiating outcome metrics, may delay the contracting of impact bonds, and thereby increase costs. One potential solution has emerged in the form of outcomes funds.

**Outcomes funds provide an opportunity to contract multiple impact bonds from the same funding pool.**

As with the first impact bond, outcomes funds were pioneered in the UK, which has launched seven outcomes funds to date. For several of these, a rate card was developed, which specified the impact metrics and the price the outcome payer was willing to pay for their achievement,

and invited applicants to bid against these prices. Others, such as the Commissioning Better Outcomes Fund, had a broader remit of growing the SIBs market, and did not prescribe outcomes in a rate card (Big Lottery Fund, 2015). Further rate cards have been developed in other high-income countries, for example for homelessness in New South Wales, Australia.<sup>57</sup>

In addition to the outcomes funds developed in high-income countries, several outcomes funds are in design for low- and middle-income countries. This includes Social Finance India's Education Outcomes Fund (IEOF), which will seek to raise \$1 billion to fund a range of education outcomes, with a focus on poor and low-income students. Although the IEOF is still in design, initial focus areas include early childhood education, primary education, secondary education, inclusive education, and school-to-workforce transition. Social Finance India has completed a landscape analysis of around 150 service providers, which resulted in a shortlist of approximately 35 organisations for further due diligence. There is also an appetite for pooling investor funding. For example, the India Impact Fund is aimed at catalysing debt for impact in housing, health and education.<sup>58</sup>

<sup>57</sup> Office of Social Impact Investment. (2018). Market Sounding: Homelessness Rate. NSW Government.

<sup>58</sup> ET Bureau. (2018). Social Finance launches \$2 billion India funds.

## METRICS AND MEASUREMENT

The cornerstone of impact investing is the measurement of social impact. Impact measurement helps support the idea of social return which in turn helps build credibility and supports the growth of the industry. However, a key paradox within the impact investment industry is the fact that impact investors have a very hard time measuring impact. Though there is widespread agreement on the need for better and timely measurement of social returns, ironically, however, it remains an ongoing challenge for the industry. Within the impact bond market, however, measurement has been much more concrete including measures of both outputs and outcomes for individual beneficiaries of services. Nevertheless, more effort could be made to harmonise robust measures of success in all sectors.

This section aims to offer an analysis of broad impact measurement practices globally and the status in India. We first present results from the Brookings Survey, specifically on impact measurement. We also use data from the IIC on some aspects to give a holistic picture of how impact is measured by investors and their portfolio companies in India, the tools that are deployed and the remaining bottlenecks. As a complement to the analysis, we present an overview of existing social impact assessment tools, frameworks and methodologies from around the globe. We also look at each methodology's ability to meet the impact criteria. We borrow from decades of experience of the evaluation profession and global best practices and provide examples, wherever possible. In doing so, we aim to provide ways to think about impact. Ultimately, our objective is to provide a set of desirable attributes that can serve as guidance in building and measuring social return and impact.

Several initiatives, most notably by the GIIN and Impact Reporting and Investing Standards (IRIS), have helped harmonise approaches to social and environmental returns in the form of output and impact measures either through metrics or ratings. While their use is prevalent in the Indian context, measurement largely remains decentralised and proprietary in nature. High costs of conducting evaluations have often led to impact measurements being underappreciated, especially since impacts of investments can occur many years after investments are made. This has often meant that markets have chosen the easier option of not measuring impact robustly.

### 4.1 RESULTS FROM THE BROOKINGS SURVEY

Investors and portfolio companies can benefit greatly from reliable performance metrics. For investors, this utility includes benchmarking and comparability across investments, and valuable information for screening and making investment decisions. For investee organisations, common metrics can help reduce reporting burdens, support performance management and demonstrate the impact of their programs and services. **Overall, measuring impact helps organisations make better decisions, save finances where possible and ensure that their investments or interventions produce and maximise social returns.** However, much of this process has remained largely theoretical, with few reference points that provide common practices, methodologies and indicators that investors or social enterprises can use to measure social impact. Many of the best practices from across the globe can be applied to the local Indian context to assess what programs should be funded, or examine the methods by which services are delivered.<sup>59</sup>

<sup>59</sup> For detailed analysis of impact measurement across the sectors of health, education and agriculture, please see Appendix 2.



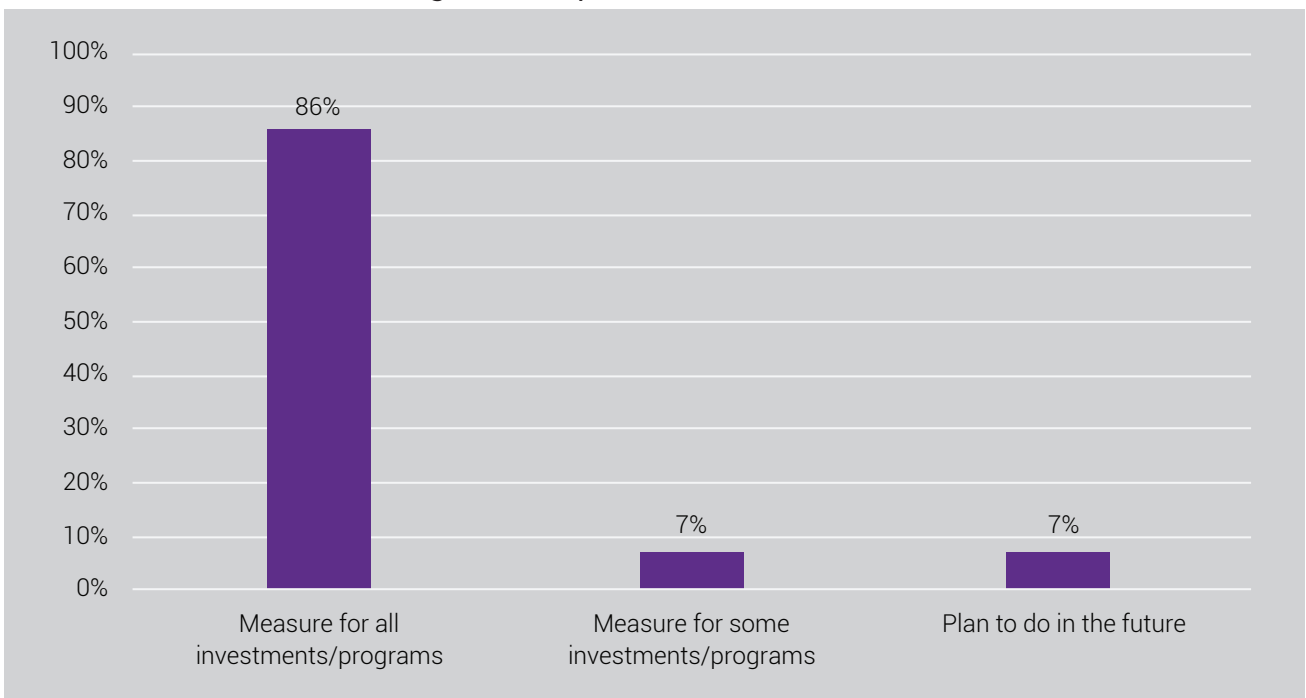
## IMPACT MEASUREMENT

The Brookings Survey found that 86% of all impact investors measured impact for all their investments (Figure 20). When asked of their tool of choice for impact measurement, 65% of all impact investors relied on proprietary measures of impact not built on internationally-accepted indicator catalogues such as IRIS (Figure 21). These differed by investment and across companies. Identification of indicators and choice of proprietary metrics was based on self-selection depending on the products and services that were delivered by portfolio companies (investees). How many of these are

ongoing performance tracking metrics or, in fact, valid proxies for impact, is difficult to gauge given their proprietary nature.

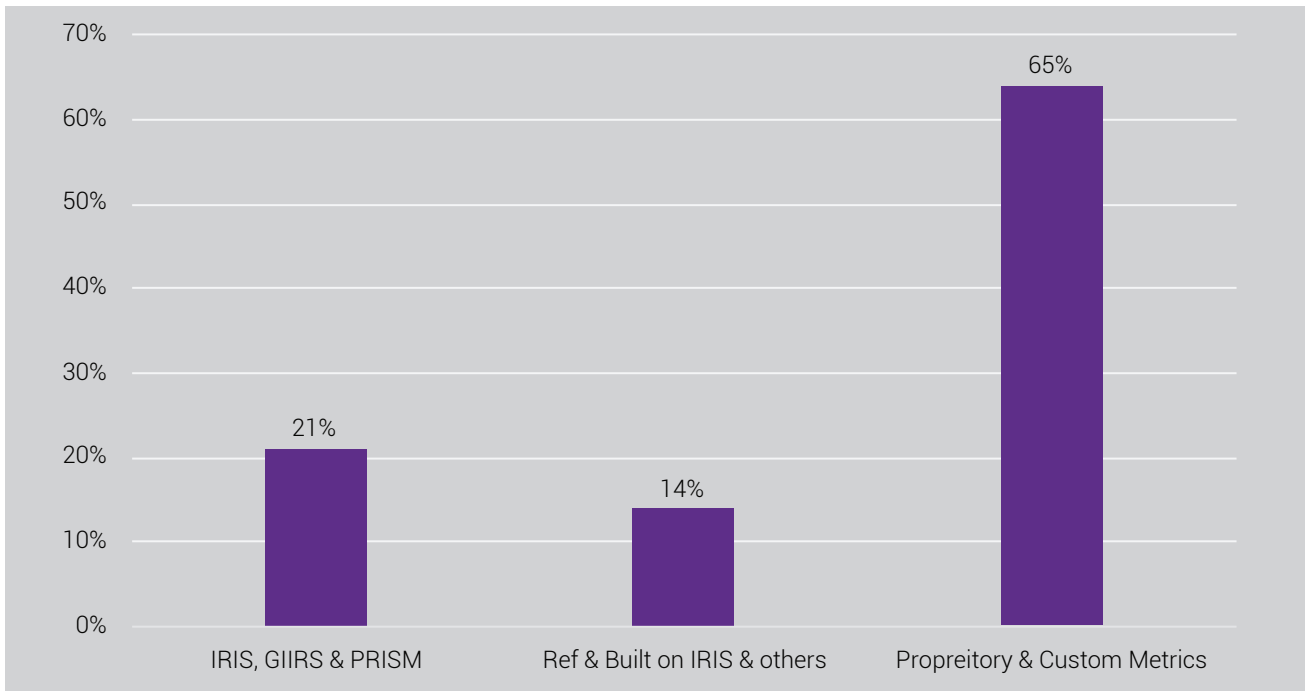
Beyond this, 21% stated that they used internationally accepted metrics, specifically IRIS, PRISM & GIIRS (see below for a detailed analysis of these metrics), which were the three most common rating systems and toolboxes that were used. The remaining 14% of the funds stated that though they referred and built metrics from internationally accepted metrics (such as the IRIS), in many ways, these still remained proprietary or custom.

Figure 20: Impact measurement, 2018



Source: Brookings Survey

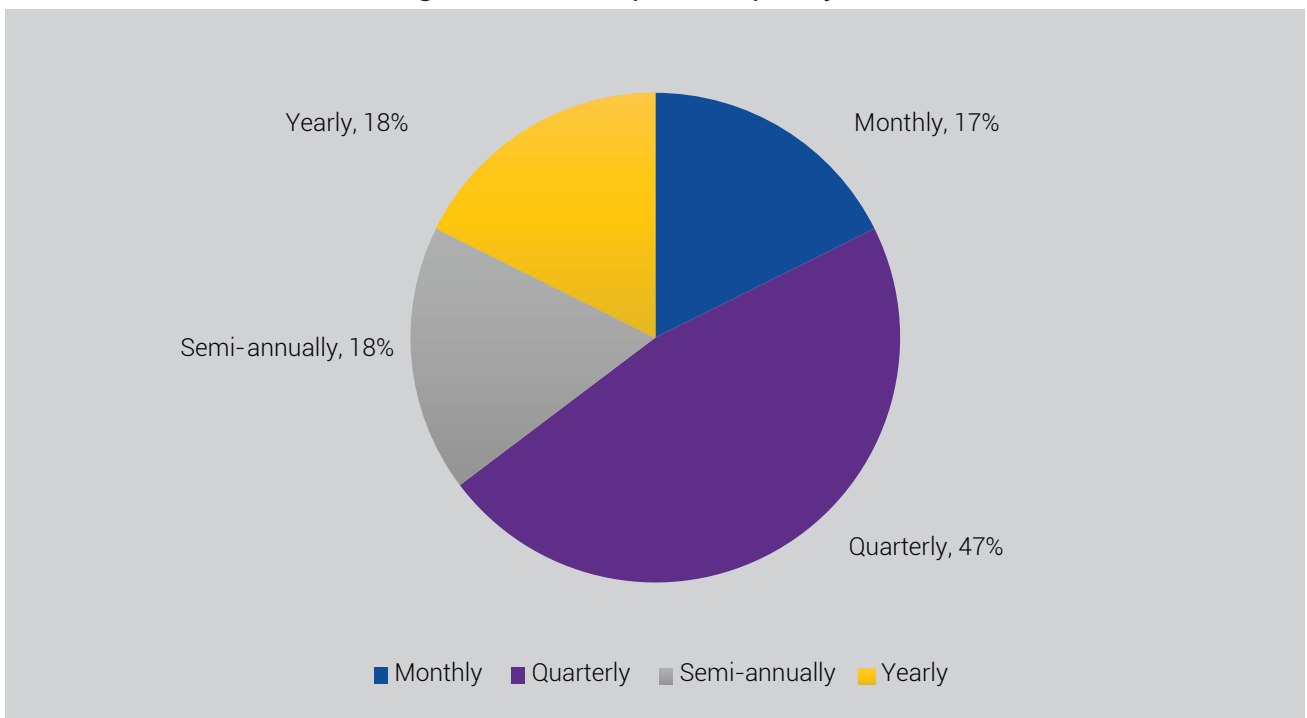
Figure 21: Tools for Impact Measurement, 2018



Source: Brookings Survey

The IIC Survey also asked impact investors how often they captured data from their investees and a majority of funds (almost 62%) preferred capturing data on a quarterly basis (Figure 22).

Figure 22: Data capture frequency, 2017

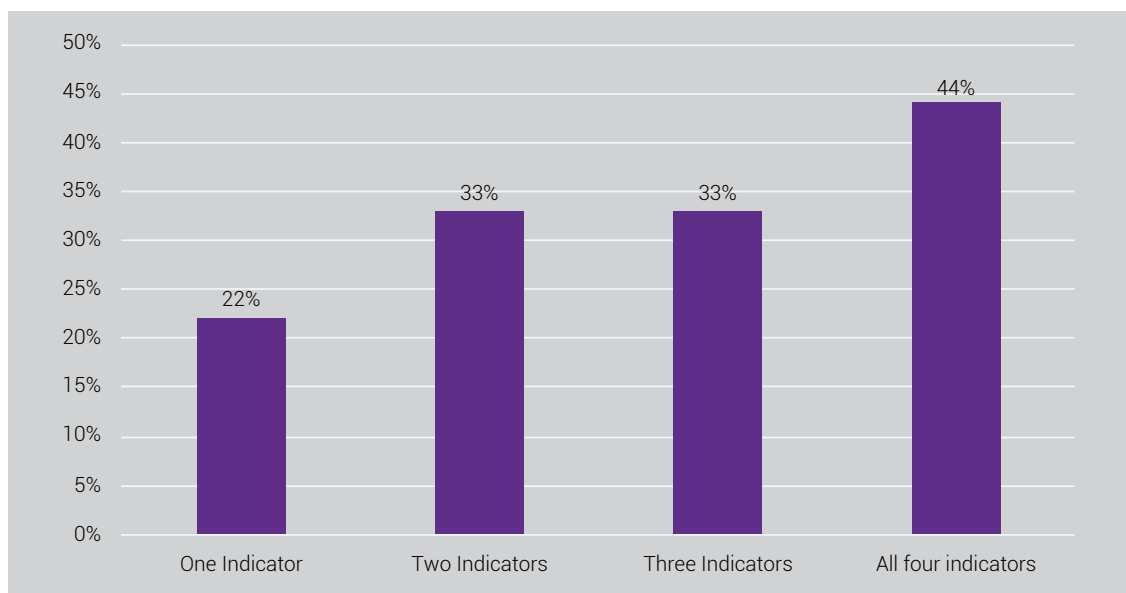


Source: IIC Data



The Brookings Survey also asked impact investors what types of indicators they used to measure impact, across inputs, processes, outputs and outcomes. Inputs are resources invested into the investee's activity, such as funds for human resources or capital; activities corresponding to program implementation; while outputs are the tangible products from activity; outcomes are the changes in society resulting from activity. Finally, impact is the effect on the broader target population such as a sustained drop in poverty levels. Almost 44% of respondents of our survey used all four indicators to measure impact (Figure 23).

Figure 23: Break-down of indicators for impact measurement, 2018



Source: Brookings Survey (\*multiple options possible)

**Across organisations, there is no single measurement answer. The tools used for impact measurement depend on what is most appropriate for the investor or the portfolio company.** Impact measurement varies greatly, with multiple firms measuring a variety of inputs, processes, outputs or outcomes and different combinations amongst these. While impact investors have a good understanding of logic and theory of change models that offer standards of credibility, impact measurement relies entirely on the discretion of individual organisations. A lack of transparency around how and which indicators are measured makes it harder to gauge or group standard approaches and common practices of impact measurement. The expertise of fund managers also remains mixed (and sometimes limited) in terms of assessing social and environmental impacts or returns.

## 4.2 TRENDS IN IMPACT MEASUREMENT IN INDIA

**O**ne common theme that emerged from the interviews was the challenges that impact investors and investees face in conducting impact measurement. The practice remains highly decentralised

and largely proprietary. Several trends emerged from our analysis of the interviews which are outlined below:

### 1. Metric selection and use are not universal

In India, metric selection and use is ad hoc and done to fit services and products that are offered by investees, differing from investment to investment, with few common indicators and references. This part of the industry is beset with inefficiencies arising from poor coordination, poor understanding and confusion over language. To inform action, impact investors need to robustly define impact. This essentially means moving away from proprietary and custom metrics and towards standardisation of tools and approaches. This would lessen friction, inform effective business design, provide inputs for business improvement and provide clear-cut impact measurement. **Embedding such practices also has the scope of informing public policy design and program implementation in the long run.**

## 2. "Impact" is defined loosely

Currently, impact in the industry is defined loosely – “*profitably serving an underserved market.*”

**Collecting or showing impact data is not mandated by regulatory agencies in India, which is why most efforts to measure impact either remain proprietary or in exploratory or pilot phases.** Industry-wide acceptance will depend on the generalisability of tools and approaches, as well as the support of industry bodies such as the Impact Investors Council or government agencies such as the Quality Council of India. Until there is standardisation of impact in the sector, more risk-averse or resource-scarce funds will be reluctant to join the crowd. Standardising impact measurement would also help bring accountability and transparency in the system.

The critical question that impact investors need to ask themselves is whether inputs or activities conducted by portfolio companies are done in a manner that actually delivers results, yet this is difficult to do without knowing which indicators are valid proxies for impact. Hence it is crucial that the industry takes measures to build credible, standardised, and measurable indicators of impact. It must also take advantage of innovations and government data platforms such as data.gov.in.

## 4.3 MODELLING POTENTIAL IMPACT

There are a host of methodologies that can be borrowed from international development evaluation literature to assess social impacts. While incentives, costs and feasibilities differ across impact investors, and it is useful to understand and assess which may be relevant in what cases, what is ultimately needed in the industry is an *evaluative* understanding of social impact.<sup>60</sup> This refers to understanding the social value chain and how impact is fundamentally delivered. It also means keeping issues of additionality, causality and negative consequences under consideration. While some of these features may fall under the scope of metrics and ratings, which are pivotal in determining success, a broader understanding of cause and effect relationships are pivotal in managing risks and supporting the growth of the industry.

While it is useful to borrow from evaluation and international development literature, it might be difficult to ascertain desirable characteristics that are applicable on a blanket basis to impact investments. Development evaluations have typically involved practitioners using a range of methodologies depending on the characteristic of the intervention or project, with the key focus on evidence of what works and what doesn't. But these motivations substantially differ when we look at traditional impact investment practice.

**Within impact investment, fund managers typically perform due diligence ex-ante by reviewing existing evidence of likely social impacts, whereas evaluation methodologies in traditional development tend to focus more on ex-post analysis – something that is less typical in the impact investing field.**<sup>61</sup>

Experience of fund managers in dealing with social and environmental returns and understanding pathways of social return also varies within the impact investment field. Furthermore, since Indian impact investment takes place over a wide range of asset classes, ranging from traditional private equity or venture capital-style investing, to more hands-on incubator or accelerator guiding, incentive frameworks differ across the market. Ultimately, what is required is a holistic understanding of social impacts of investments. In doing so, considering the following factors might be helpful:

### 1. Assessing what constitutes meaningful impact

This varies depending on the objectives and capacity of investors but should theoretically reflect changes that go beyond output levels. For an impact investment, this definition captures the broader social and environmental changes that occur beyond the financial level, stretching beyond differences in material well-being of employees, consumers and communities. The measurement focus should be primarily on agreeing on suitable metrics and targets to be monitored throughout the investment process by the investee and investors.

<sup>60</sup> O'Flynn, P., & Barnett, C. (2017). Evaluation and impact investing: A review of methodologies to assess social impact (No. IDS Evidence Report; 222).

<sup>61</sup> Jackson, E.T. (2012) Unlocking Capital, Activating a Movement. Final Report of the Strategic Assessment of The Rockefeller Foundation's Impact Investing Initiative, The Rockefeller Foundation.

## 2. Understanding differential impacts

Thorough impact evaluations should be able to discern which stakeholders fare better and aim to understand the effects on different income groups, such as marginalised or low-income communities. Differential impact in this view should capture metrics that go beyond income and towards improvements in social status, reach, significance and broader changes at a societal level.

## 3. Focusing on additionality

Impact measurement must focus on "incremental value" of the program activity, i.e. the delivery above the norm discounting for what was happening anyway. An impact measurement should be able to differentiate the additional effect that is due to (caused by) the investment versus the status quo.

## 4. Capture what matters

Capturing social performance of an individual investment, though challenging, should be the top priority of impact measurement. Ideally, impact data and reporting should provide data points of individual enterprises, employees, customers and the impacted population.

the identification of target beneficiaries and potentially the collection of baseline or historical data. The social impact of investments can be broadly measured by looking at the following sets of indicator types:

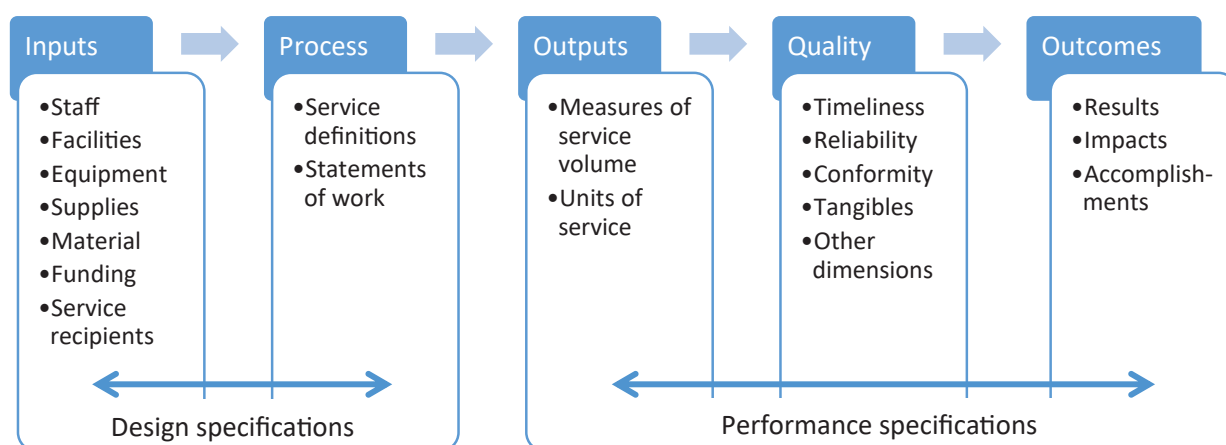
- **Output** - The product of an investee organisation's activities (examples include: client-provided services, goods produced).
- **Outcome** - The changes that result from these outputs or from the organisation's activities, which typically pertain to broader social implications (examples include: clients' savings, improved savings, school retention/graduation rates).
- **Breadth** - The reach of impact across groups of people or ecosystems.
- **Additionally** - The positive impact that would not have occurred anyway without the investment.
- **Depth** - The significance of the impact for the people or ecosystems impacted.
- **Benchmark** - Comparing performance with peers.
- **Longevity** - Durability of impact over time.
- **Attribution** - Evidence that positive impact results from the investment, not from other factors (such as market growth or another party's investment).

A good point for defining an impact thesis could be the theory of change and logic models. This involves modeling causal pathways from activities to outcomes or impact as defined in Figure 24 below.

## 4.4 WHAT TO MEASURE?

The first step in measuring impact is defining a set of outcomes. This helps identify the goals that programs or businesses intend to achieve. This stage should typically involve

Figure 24: The impact continuum



Source: Martin (2005).

## DEFINING & ENSURING A ROBUST DATA REPOSITORY

Data infrastructures that impact investors and social entrepreneurs use range from national or regional social and economic indicators to micro-level surveys. They lay foundations and provide guidance on fiscal and operational motivations of participating or investing in enterprises and provide baseline assessments of target populations that social programs and enterprises aim to target. Impact investors and portfolio companies can also consider conducting their own surveys. However, many survey processes may not be valuable to respondents and impact measurement might require outside resources. Investment funds irrespective of size should aim to build an understanding of how pre-defined and accepted impact indicators can be tied to activities that portfolio companies conduct.

Within the Indian context, these could mean national statistics put out by the Ministry of Statistics & Program Implementation (MOSPI) or state or sector level specified data sets such as sample surveys. What remains peculiar in India, however, is that government level data in many cases remains outdated, not real-time and of questionable quality. Given the need for real-time disaggregated statistics, especially when informing an impact thesis, impact investors and entrepreneurs may also benefit from using datasets that private organisations and non-government actors collect and publish. **Social service providers and private research institutions gather large volumes of proprietary information (e.g. through surveys/focus groups) that have great potential to complement government databases. These could include the statistics provided by Annual Status of Education Report (ASER) (on education), or NITI Aayog (Aspirational districts).**

## 4.5 EXISTING IMPACT MEASUREMENT INFRASTRUCTURES

**B**roadly impact measurement globally has been characterised by three impact measurement approaches: rating systems, assessment systems, and management systems.<sup>62</sup> Rating systems could refer to Global Impact Investing Rating System (GIIRS) or Probability Risk and Impact System (PRISM) ratings, assessment systems could refer to Social Returns to Investment approaches and management systems could refer to IRIS and other catalogues. The prominence of metrics, certifications and ratings has largely benefited the market by allowing investors to compare and accordingly invest in businesses by assessing their potential impact.

### RATING SYSTEMS

Rating systems summarise the impact investment's quality or potential in terms of a fixed set of indicators in the form of a score or symbol. Ratings help provide signals to audiences about investment, impact or fund performance. Since the same criteria is applied to all organisations getting a rating, they provide a basis for comparison. However, ratings only tell part of the story, while they provide frames of reference, they must be complemented with descriptive narratives of impact, as well as program and financial performance.

The most commonly used rating systems noted through the course of our interviews in India were GIIRS and PRISM. For details on these, please refer to Appendix 3.

### ASSESSMENT SYSTEMS

Assessment systems help evaluate practices and impact of investments through a set of fixed or customised indicators but do not provide tools for managing or tracking operational data. Since assessment systems mostly remain contextual to the investment or program, they don't always allow for comparisons and setting benchmarks. Commonly used assessment systems are Social Return on Investment (SROI) & Cost-Benefit Analysis (CBA). For more on SROI & CBA, please refer to Appendix 4.

<sup>62</sup> Olsen, S., & Galimidi, B. 2008. Catalog of Approaches to Impact Measurement: Assessing Social Impact in Private Ventures. Social Venture Technology Group with the support of the Rockefeller Foundation.

## MANAGEMENT SYSTEMS

Impact management systems help organisations manage and handle impact. Most commonly used impact management systems offer and catalogue larger sets of pre-defined metrics which organisations can use. These indicators speak to issues particular to a certain industry, geography or type of impact. Some examples of such management systems include the IRIS, the Sustainable Development Goals (SDGs), B-Analytics and the Principles for Responsible Investment (PRI). Investors can standardise the use of one or more of the indicators provided in these catalogues or use blended metrics when measuring and managing their social impact. For more on impact management systems such as IRIS & PRI, please see Appendix 5.

### Social impact bonds

Defining success by creating the outcome metrics lies at the heart of every impact bond design. Outcome metrics typically include a small number of quantifiable goals with a well-defined time horizon. While most impact bond designers agree that outcome metrics should consist of quantifiable indicators, qualitative measurements also provide insightful information that can help form the base for knowledge and learning. While evaluations are key within an impact bond there is also a risk of over-emphasising or overspending on them, especially in early-stage markets: many impact bonds in high-income countries rely on validation of administrative data to trigger payment metrics. In Educate Girls, the first impact bond in India, the evaluation design combined the validation of girls' school enrollment with a randomised control trial to measure learning outcomes. In the larger QEI DIB, the evaluation will use a quasi-experimental methodology, where the learning outcomes of the children in intervention schools will be measured relative to comparison groups.<sup>63</sup> The selection of outcomes typically happens early on during the feasibility phase. This is when stakeholders are agreeing on theories of change and target populations for the intervention.

Within Impact Bonds lie multiple motivations and value drivers. From the measurement perspective, it is essential that impact bond participants keep the following in mind<sup>64</sup>: –

- a. **Measurable Metrics:** Metrics should be simple - complicated metrics are harder to communicate and difficult for service providers to deliver. Metrics should also be limited in number.
- b. **Meaningful Metrics:** Within the larger framework of impact, metrics should be aligned to the goal or purpose of the impact bond. They should represent meaningful improvements in beneficiaries' lives. This remains one of the most challenging aspects of designing metrics and impact bonds, specifically striking a balance between metrics that are easy to measure and those that are valuable to the developmental challenge at hand.
- c. **Set at an appropriate level:** Choosing the right balance between metrics involves setting them at levels that are ambitious enough to transfer risk away from outcomes funders and at the same time not too risky for investors to undertake. Metrics should also be set at a level that should incentivise service providers to be innovative and not too low so that no meaningful impact is achieved.
- d. **Timeframe:** Timeframes should be short enough for investors to invest and at the same time long enough to achieve impact or results.

Several impact bonds have made significant investments in the design and development of performance management systems. Real-time learnings and adaptations of the theory of change processes help to hone and refine the SIB model. Engaging in a systematic cycle of research, design, action, data tracking, and use of data for continuous improvement to deliver an intervention remains crucial.

<sup>63</sup> Kitzmuller, L., McManus, J., Shah, N.B., Sturla, K. (2019). Educate Girls development impact bond: first evaluation report. IDInsight.

<sup>64</sup> Gustafsson-Wright, E., Boggild-Jones, I., Segell, D., & Durland, J. (2017). Impact bonds in developing countries: Early learnings from the field. Center for Universal Education at Brookings, 81.



## POLICY RECOMMENDATIONS & CONCLUSION

As impact investors make investments in key social issue areas and as some of these challenges become more urgent in the public's mind, bringing market incentives and entrepreneurial innovation to bear on solving them seems like the next logical step. Hence, the need for building an impact investing ecosystem which promotes the measurement of impact and management of early learnings has never been so pressing. The Indian impact investment market would benefit from systematic and credible information about the nature of investments and the social impact being realised across the sector. This information will allow for certain risks to be better managed and potential additional return to be captured.

Over the course of this study, several trends and unique features of the Indian impact investing ecosystem have emerged. The chapters above provided key results and new developments of this upcoming field. Going forward to mainstream impact investing in India, several recommendations must be followed. This section summarises key results from our research and provides corresponding recommendations. These recommendations according to us, will help develop key competencies to deliver added business and social value. Ultimately, as the market for results-based and alternate financing develops, government, policymakers and other stakeholders will wake up to the potential of this sector. Impact investors and other stakeholders must catalyse this evolution and push for improvements that push boundaries, broaden perspectives and strengthen impact theses.

### 5.1 RECOMMENDATIONS FOR IMPACT INVESTING IN INDIA

#### 1. The need for understanding willingness-to-pay & opportunity costs

As impact investors broaden their portfolios and investments across social sectors where governments remain active participants, an understanding of the economics of those sectors is imperative. In the case of key social areas such as health, education and in some cases, agriculture (given the economics in the long-run) will always remain primary markets for the government. Basic economics dictates that free provision is never truly free as consumers and beneficiaries constantly calculate opportunity costs of accessing those services. By extension, when the government provides access to schooling or healthcare facilities, even though by definition these services remain free, all of them have hidden opportunity costs that consumers internalise. The cost of spending time and energy on accessing a free service is only as valuable to a beneficiary as long as the next available alternative is not costlier than the internalised opportunity cost of doing so. Awareness of these types of costs is critical to the economic way of thinking as it can by extension help social entrepreneurs navigate and understand what alternatives must be presented to consumers. **When investments or programs aim to attain and fill gaps where government services fall short, understanding opportunity costs is imperative.**

To better serve beneficiaries in these sectors and design appropriate business models, a simple understanding of willingness-to-pay also offers some solutions. In the education

sector, for example, since private schooling or services charge tuition or fees, households make decisions against future consumption by paying for these services. In low-income households, the fees and tuitions charged by private services may exceed their current income or ability to pay. In many cases, households' willingness-to-pay for a private service may also differ from their ability-to-pay if the service is not valued. For example, a middle-income household may be able to pay for a private education service but may not be willing to forego consumption since they may not value investments in education or human capital extensively. An understanding of this inefficiency is crucial when serving low-income households, not only for impact investors but also for investees that design products and services. Economists such as Karthik Muralidharan and Lant Pritchett, for example, have done extensive work on understanding households' willingness-to-pay in education markets.<sup>65</sup> Muralidharan has developed a school choice model, wherein households value school characteristics, school tuition, travel distance and other factors when choosing amongst government and private schooling alternatives. Using this choice model and background data on household wealth and parental occupations, the author is able to identify households for whom private schools are unaffordable and who by extension would be cut off as primary markets for social enterprises that impact investors invest in. Understanding factors that impact households' ability and willingness-to-pay can help impact investors and social entrepreneurs ascertain target markets. Alternatively, they also may provide insights into segments of markets that by extension would not be target customers or users.

## 2. The need for product differentiation & harnessing technology to move from substitution & augmentation, towards modification & redefinition

An example from the healthcare sector, elucidates this point very well. The 2014 Health & Morbidity report by Brookings India identifies states where citizens access public health facilities (such as government hospitals) versus private health facilities. In the study, the authors

find that south-Indian states such as Tamil Nadu have much higher proportions of individuals accessing public health facilities irrespective of their incomes whereas the opposite holds true in many north-Indian states.<sup>66</sup> This shows that if public services are of quality they will be accessed by all members of society, irrespective of their incomes. This holds important insights. If impact investors are to succeed in typical development markets such as healthcare and education, they will need to focus in areas where there are significant public provisioning gaps. In states or areas where government provisioning of services is weak or of poor quality, and households have disposable incomes or access to credit markets that may allow them to access private services, opportunities for investment, scale and return will be great. **Doing so, will require considerable due diligence, market analysis and investments in search processes on the part of investees and impact investors.**

Impact investors and private markets can have positive impacts when they provide differentiated products and services relative to market alternatives. For example, most impact investments in education in India have thus far focused on *substitution and augmentation* of already existing schooling structures. Investments have been made into providing alternatives to public schools, which may not be affordable for low or middle-income groups. Educational products and services that fall in the "*modification and redefinition*" category alter and innovate existing academic systems, and redefine the way education services are delivered. This helps children develop a larger breadth of skills, regardless of which school they attend or their economic means. Impact investors in India will need to devote resources and invest in the search process to offer products and services that go beyond traditional provision to those products and services that effectively address the problems faced by consumers in traditional development sectors. Shifting investments towards products or services that improve or modify existing systems or redefine the way education is delivered for example, will help investors deliver sound alternatives at scale.

<sup>65</sup> For more on education choice-models see: Arcidiacono, P., Muralidharan, K., Shim, E. Y., & Singleton, J. D. (2016). Valuing School Choice: Using a Randomized Experiment to Validate Welfare Evaluation of Private School Vouchers; Gertler, P., & Glewwe, P. (1990). The willingness to pay for education in developing countries: Evidence from rural Peru. *Journal of public Economics*, 42(3), 251-275 ; Carneiro, P., Das, J., and Reis, H. (2016). The Value of Private Schools: Evidence from Pakistan.

<sup>66</sup> Ravi, S., Ahluwalia, R., & Bergkvist, S. (2016). Health and Morbidity in India (2004-2014).



### 3. Adoption & alignment of globally accepted indicators

Where social or environmental performance is not regulated, such as the case of India, aligning and adopting standards and indicators at an industry level will have many advantages.

**Acceptance of global indicators must be facilitated by industry organisations such as the Impact Investors Council and Quality Council of India (QCI).** Ultimately, the acceptance and formalisation of standardised metrics can help build reputation, enhance deal flow, improve portfolio management and create credible social value. Through the collection and adoption of standardised indicators, high-quality data is collected that allows for:

- Effective program or business design
- Inputs for program or business improvement
- Clear-cut impact measurement
- Comparable impact and investment assessment

While the right outcomes can and should vary by context, indicators accepted and standardised by industry should be measurable, and capture real improvements in people's lives. Before, during, and after the delivery of programs, high-quality data and information management is essential. While "measurement" is essential to both the identification of social issues that programs or social enterprises wish to attack and to track success of investments and programs, it is in the second stage of "impact measurement" where there remains a need to standardise reporting.

The first step to adopting and aligning on commonly accepted impact indicators is benchmarking social impact. Since there is currently a lack of a common language and understanding of terminology, impact investors and social enterprises will need to find a balance between trade-offs and priorities. While social enterprises are maximising their double and triple-bottom lines, assigning impact targets and comparable values to the impact created must be an iterative process. The Global Impact Investor Network in partnership with the Rockefeller Foundation, Acumen Fund and B Lab spearheaded the development of the Impact Reporting and Investing Standards (IRIS) project. IRIS is slowly becoming the unified standard behind which various industry stakeholders measure impact. Adoption of

standardised metrics also feeds into other third-party assessments, standards and frameworks including ratings such as PRISM and B-Analytics (GIIRS). Ratings help build credibility for businesses and expand funding.

### 4. Adopting documentation protocols and presenting results in consistent formats

In order to derive maximum value, investors and investees should be consistent in the way they document impact and measurement data. This could refer to key assumptions applied, units of measurement, scope and time periods. Furthermore, regardless of what measurement approaches are applied, design and reporting guidelines should be agreed upon, so that they reduce time required by readers to understand impact reports. Following this, the creation and promotion of an online public database, which houses these essential guidelines and documentation protocols can facilitate further coordination for measurement and impact results.

### 5. Increasing collaboration amongst investors

While Indian Impact investors reported that they consulted other impact investors or co-investors during due diligence phases of investments, a similar process can be undertaken when impact reporting requirements are determined. Leveraging industry bodies, non-profits active in the field and government agencies that collect data can help coordinate research and learnings beyond due diligence and market assessments and towards impact evaluation. Impact investors must see value in formal collaborations since it offers obvious benefits of shared lessons, costs and databases. Better coordination of the metrics tracked, data collection reporting frameworks and reporting frequency can help reduce duplication.

### 6. Understanding which metrics to use and at what level (input versus output versus outcome) will help investors and enterprises take steps towards coherent and comparable performance data

Reporting impact data so far has focused on qualitative and anecdotal data in narrative and case study formats. While qualitative evidence can sometimes be used to report outcomes, developing methodologies and indicators both on financial returns and social impact at early-

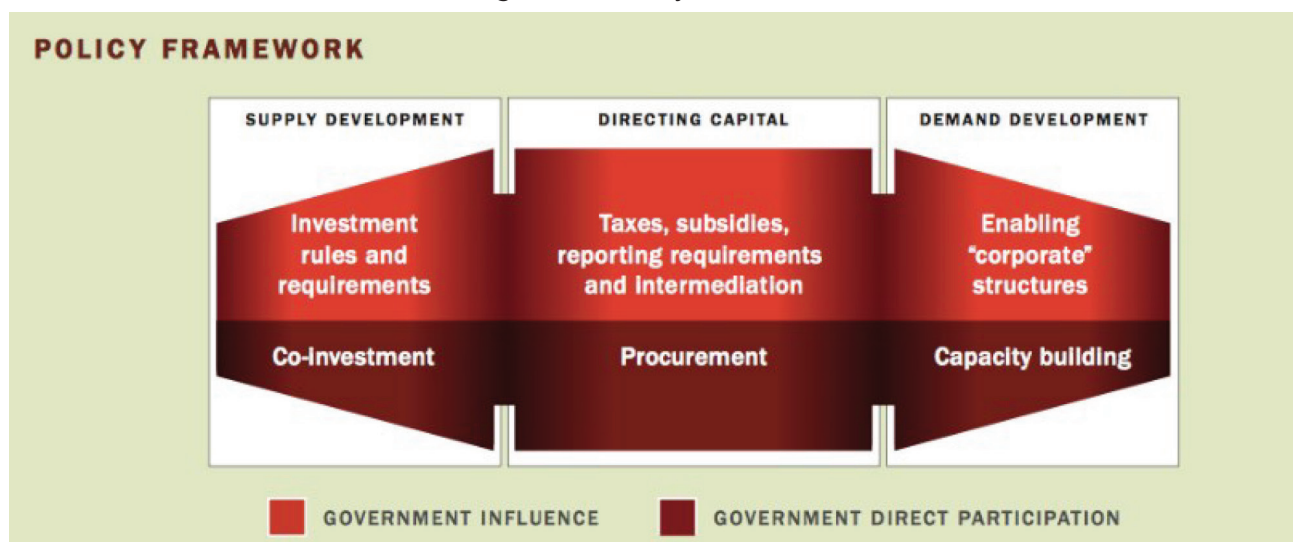
stages remain imperative to mobilise capital towards the sector. Qualitative data cannot and should not be used as a substitute for hard numbers but rather as a complement to the numerical reach and impact provided by portfolio companies. This information will help drive early-learnings within and across portfolios, attract additional capital and present comparisons and trends.

### 7. Supportive policies and government backing can incentivise and stimulate the market for social investment

Building widespread understanding, interest and engagement among government stakeholders is a big challenge. Therefore, social impact evidence from successful impact investments is critical as it allows for the escalation of impact investing models to be understood and

recognised by the government and requisite departments. Furthermore, government policy within the impact investment landscape can intervene at any point in the market – either at the supply side (policy targeted at the suppliers of capital such as impact investors) or at the demand side (policies targeted at consumers of capital such as enterprises and companies in need of capital). **In order to establish a sustainable impact investment market, governments need to be involved in multiple layers of intervention. Thornley provides a policy framework** (below – Figure 25) that consists of three types of policy interventions: supply development, directing capital, and demand development. The government can participate directly in the market or influence impact investing through policy or regulation, as the model below demonstrates.<sup>67</sup>

Figure 25: Policy Framework



Source: Thornley et al. (2011)

## 5.2 RECOMMENDATIONS FOR IMPACT BONDS & OUTCOMES FUNDS IN INDIA

Impact bonds offer a new way to advance cross-sector partnerships and introduce innovative financing solutions to scale proven social programs. Impact bonds operate at the intersection of three important trends: greater funder interest in evidence-based practices in social service delivery; government interest in performance-based contracting; and impact investor appetite for investment opportunities

with both financial returns and social impact. Philanthropy and government will continue to be vital sources of funding for the social sector. Impact bonds can complement this funding by serving a niche purpose: providing predictable, long-term capital for evidence-based organisations aiming to significantly expand their programs.

<sup>67</sup> Thornley, B., Wood, D., Grace, K., & Sullivant, S. (2011). Impact Investing: A framework for policy design and analysis. InSight at Pacific Community Ventures & The Initiative for Responsible Investment at Harvard University.

**The pace and quality of future developments within the Indian impact bond ecosystem will be closely tied to the identification and promotion of an outcomes-based contracting mindset, setting the stage for future success.** A robust market depends on a strong ecosystem, which must take into consideration some of the recommendations outlined below.

### 1. Starting with the problem

Impact bonds and outcomes funds are just one way of contracting services. In certain circumstances, it may be more appropriate to tie funding to outcome achievement, instead of a traditional grant where funding is tied to inputs. This may be the case if inputs are quite complex or human behaviour-dependent. Further, some service providers may not be in a position to take on the risk associated with a traditional payment-by-results structure. This could lead to more risk-averse behavior by providers and potentially sub-optimal delivery of services and outcomes.<sup>68</sup> Impact bonds respond to these challenges, by shifting the financial risk from service providers to investors. However, since there are many ways of funding social programs, and not all will resemble this set of circumstances, it is crucial for stakeholders to carefully outline the problem they are trying to solve, and only then decide on the appropriate instrument.

### 2. Prioritising data

One of the key lessons from the impact bond market globally has been the potential of the contracting mechanism to highlight the collection and analysis of outcomes data. To achieve outcomes, service providers must understand where they are relative to their goals and have the capacity to respond to new information to adapt interventions. Building this data capacity within service providers may be challenging: some may have more experience in this area than others, and engaging in an impact bond in the first place requires a certain level of capacity from service providers. While not every service provider will be ready to contract on outcomes, the experience from the impact bonds sector demonstrates the value of incorporating data into decision-making, and highlights the potential benefits of improving data capacity

among service providers. One potential pathway to improved collection and management of data is through the use of digital data collection tools, which can improve the availability and timeliness of information.

### 3. Promoting learning and transparency

Designing an impact bond structure continues to be a complex and time-consuming process. The number of actors typically involved, and the fact that this will usually be a new way of doing business for most parties means that there is usually a steep learning curve. **There is evidence that the transaction costs of an impact bond can be reduced by contracting in the same sector and building on lessons learned.** For example in the case of the Quality Education India DIB, which built on the prior experience of Educate Girls. The findings from the Ecorys evaluation of the Department for International Development (DFID) DIBs pilot highlights the value of documenting and disseminating learnings more widely, and it is clear that this would be valuable to all actors – from investors, to outcome funders and service providers.<sup>69</sup> Data and key learnings from early impact bonds must be processed, analysed, and continuously distributed not only to impact bond participants but also to other government entities and potential actors interested in the space. This demonstration of value will engage a wider network and generate feedback that will help fortify the case for impact bonds.

### 4. Engaging impact bond champions

The process of introducing results-based financing programs like impact bonds has been consistently challenging around the world due to lack of flexible structures and opaque change processes. Engaging impact bond champions across stakeholders and ensuring ownership early in the process is critical to the success of implementation. These internal champions offer critical early-stage support, including help navigating bureaucracy and establishing access to key stakeholders. For impact bonds to succeed, stakeholders have to be aligned on the defined outcomes of the bond. Since different players have varying reasons and motivations for being involved in impact bonds, tailored communications and management are required.

<sup>68</sup> Holden, J. & Patch, J. (2017). Does skin in the game improve the level of play: The experience of Payment by Results (PbR) on the Girls Education Challenge (GEC) programme.

<sup>69</sup> Ecorys UK. (2019). Evaluation findings of the DFID Impact Bond Program.

## Social impact bonds - Engaging across government levels

In an impact bond contract, the central government is best suited to work along core avenues such as galvanising interest within policymakers and bureaucrats, providing incentives across different government levels and for setting standards such as budgetary support. At the state level, since local governments are usually more knowledgeable about the needs and challenges of their populations, their involvement also remains key. Because of the high degree of coordination involved in most impact bonds, deals that are primarily negotiated by state or local governments, with the national government providing support in the form of financial or technical assistance stand to be successful. Local governments that decide to pursue social impact bonds may consider specifications including spearheading pilots, coordinating among programs and agencies, and ensuring that their data systems are capable of tracking cost and service utilisation at the client level. Cooperation with central government is also needed since national level agencies could play critical roles in incentivising cross-agency collaboration and providing supplemental financial support.

Moreover, the availability of institutional incentives from a central government level can provide the reserve or kick-start capital necessary to drive initial market impetus. Internationally, legal frameworks have been seen to limit or enable impact bond ecosystems. For instance, the UK has one of the most developed impact bond ecosystems in the world. The Centre for Social Impact Bonds was established in the Prime Minister's Cabinet Office as part of the Social Investment Finance Team. In 2014, they also introduced legislation providing tax relief which applies to SIBs and other instruments and mechanisms (Social Investment Tax Relief) to funding social enterprises.<sup>70</sup> Another example comes from Australia and the State of New South Wales that implemented a Social Impact Investment Policy in 2015. The legal framework there provided incentives for increasing social impact investment transactions, removing barriers, growing the market and building the capacity of the market actors.<sup>71</sup>

## 5. Creating a centralised government body

Another important factor that has been instrumental for motivating impact bond appetite is the presence of a centralised government body that supports impact bonds. **Such a body in India can also clarify the legal and political contexts and the role and potential of utilising CSR funds for the impact bond space.** The centralised government body should have the resources to support impact bond projects. Moreover, the body should have the discretionary power to decide the allocation of fund, research, and other forms of support, in order to tackle the challenges throughout the implementation of impact bonds. For example, in the United Kingdom, the Cabinet Office works as the main support system for impact bonds. The Center for Social Impact Bonds at the Cabinet Office helps to promote the development of impact bonds by providing expert guidance, reducing transaction and set-up costs by developing standard tools such as template contracts and so on. In addition to technical support, the Cabinet Office has also allocated funds to top-up outcomes payment. Because a social intervention often involves multiple government agencies, it is often challenging to pool funding. The Cabinet Office fund overcomes this issue by allocating targeted funding for social finance initiatives, encouraging government agencies to work together.

## 5.3 CONCLUSION

**W**ith this report, we aim to provide a current and detailed overview of the impact investment market and ecosystem in India. We focus on the existing impact investment landscape of India and take a deep-dive into sectors of interest and innovative financing mechanisms. This report aims to serve as a public policy document for regulators, industry and academics. Given the slow but steady evolution of these novel ways of funding development sectors, the study ultimately aims to build the evidence base and literature on impact investing in India.

Our methodology is anchored on a primary survey of the sector, including investors and social entrepreneurs. Through the survey,

<sup>70</sup> Wilson, K. E., Silva, F., & Ricardson, D. (2015). Social Impact Investment: Building the Evidence Base.

<sup>71</sup> Wilson, K. E., Silva, F., & Ricardson, D. (2015). Social Impact Investment: Building the Evidence Base.



we aimed to determine the size and scope of the existing market, average returns, impact measurement goals and the future of innovative financial instruments such as impact bonds. We supplement the results from our survey with existing literature and data from global markets including India. The report highlights existing trends as well as future potential for the impact investing sector in India and includes detailed recommendations for steering this forward. The government can support this sector by actively facilitating outcome-focused financing methods in India's development sector. The creation of an 'outcomes fund' would be a worthwhile policy experiment towards this objective. It could channel resources towards the development sector in India and bring non-budgetary support towards social sectors such as health, education and agriculture.

Our findings for India largely mimic the trends and experiences of the global market, however, given the positioning of India we find several trends unique to the Indian market. While it has been established that the relationship of the investor to the investee greatly affects the nature of investment, we find Indian Impact Investors filling hybrid roles – somewhere between pure private equity managers and accelerator/incubator style hand-holding mentors. We find great interest and commitment in solving development problems, given the sheer size of the populations to impact but also a strong financial motivation to invest in ideas that serve double bottom-lines of financial and social returns. This is reinforced by the above-market financial returns that impact investors earn across sectors and spectrums of investments. This is also reflected in how future investment decisions are made – where investors assign great value to skills of entrepreneurs and how far they go in mentoring them.

We notice a shift from previously popular impact investment sectors like microfinance and energy towards healthcare, agriculture and education. We also highlight the problems that impact investors face while serving these traditional philanthropic sectors where investments compete against 'free' provision of these services from the government. Gauging the "willingness to pay" of customers in such differentiated markets is critical for sustainability of these investments. The data shows that investors actively apply problem-solving approaches with

technology to enhance the scale and scope of their investments. There is, however, limited creativity and innovation at display in their choice of portfolio companies, and they largely remain concentrated on tech solutions.

The industry has several champions who are promoting the idea of impact bonds, but we find little interest amongst impact investors and the government. Hence, sharing the evidence gathered from pilot impact bonds with government and other key stakeholders will remain critical to scale the model. Given that the room for adjustment in the wave of pilot interventions is slightly limited, the learnings from the pilot phase can be applied to the future impact bonds that have a similar set-up. The establishment of an overarching program or funds to encourage other government entities to engage in impact bonds design should be pursued through focused advocacy.

Building the market momentum around the idea of impact bonds will involve the education of different stakeholders that may play pivotal roles in taking this market forward. For impact bond models to be successful and scalable in India, the evidence and knowledge base must be built extensively, early learnings must be conveyed across actors and improvements to fit and improve the model must be continuous. In India, impact bonds are most likely to gain traction when developed to address issue areas of key interest to multiple stakeholders including, most importantly, the government. Supportive government policies and institutions play an immense role in both promoting and sustaining an ecosystem conducive to outcomes-based financing. Building local capacity will allow for the implementation of impact bond models that are less complex and more cost-efficient. The Indian political, social, and investment contexts will determine the potential of impact bond growth and expansion.

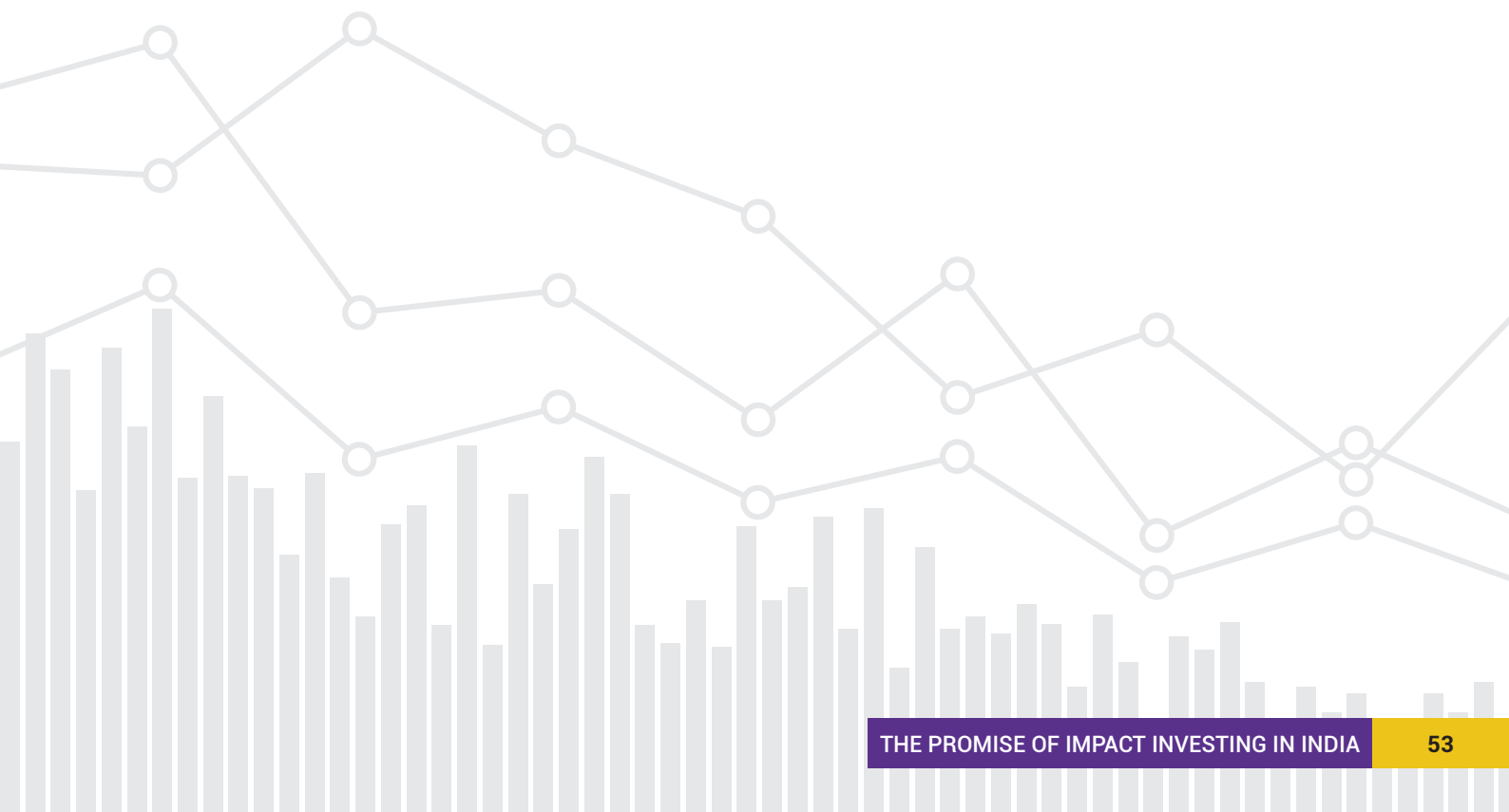
We find confusion over terminology and cost-considerations in impact measurement and widespread use of proprietary measures of impact and a lack of standardisation or acceptance of global indicators. Impact measurement is defined loosely and opaquely, with limited resources being allocated towards improvement of processes. The impact investing industry would gain from prioritising the adoption of the best practices globally—particularly measurements of social

returns and impact on society. The first step in building the impact base for impact investing in India, will involve the acceptance and promotion of global standards for impact measurement, impact indicators, documentation protocols and results reporting.

Going forward, the impact investment market in India is bound to expand given the unique marriage of high-return and high-impact ideas. While returns have been accepted and normalised quite easily by the market, measurement and reporting impact has lagged behind. Bespoke indicator development in India will involve taking inspiration and stimulus from global best practices adapted to fit the Indian and sector context. This will involve an iterative process of reviewing impact indicators relevant to activities conducted by investee companies and selecting different tools to analyse them to produce learnings. Regulators such as the Quality Council of India and autonomous industry bodies such as the Impact Investors Council will need to play a pivotal role in ensuring sector-level buy-in. As the impact investment market grows in India, the collection of qualitative as well as quantitative indicators promises to give a more comprehensive picture of the successes and failures of the market. Building a strong, data-centric evidence base will be crucial to ensure that capital is put to work on investments that

achieve the intended impact. These measures will raise transparency and the long-term credibility of the sector – and eventually facilitate the 'mainstreaming' of impact investments in the Indian economy.

Overall, the impact investment industry in India holds great promise to complement existing government programs and can have profound impacts on millions of consumers and beneficiaries across development sectors. The real lynchpin in determining the success and longevity of the market will lie in how far investors go in building and proving impact models that have already shown financial and social returns. This will involve coordination and promotion at an industry level and the use of innovation to solve development problems. The introduction and demand for new levels of rigour in social programs will involve impact investors setting the stage and being first-movers. While the potential of impact investing to bring additional finance to reaching the SDGs, and to improving the measurement of progress towards these goals is immense. The value drivers behind a conducive and responsive impact investment ecosystem in India ultimately must drive greater efficiency, innovation and risk assessment while continuously sharpening the measurements of social returns.



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# APPENDIX

## APPENDIX 1: SURVEY INSTRUMENT

### SURVEY QUESTIONS: IMPACT INVESTORS

#### A. Background on Organisation:

1. Organisation's Name: \_\_\_\_\_
2. Contact Information of Organisational Representative  
\_\_\_\_\_
- a. Name of Organisational Representative \_\_\_\_\_
- b. Title \_\_\_\_\_ d. Phone Number \_\_\_\_\_
- c. Email \_\_\_\_\_ e. Full Mailing Address \_\_\_\_\_
3. Where is your organisation headquartered? \_\_\_\_\_
4. When was the organisation established? (Indicate the year.)  
\_\_\_\_\_

And in its current form? (Indicate year.) \_\_\_\_\_

5. How would you describe your organisational type? [Please tick 1 relevant option]
- a. Private independent foundation
- b. Corporate foundation
- c. Family foundation
- d. Community foundation (privately supported)
- e. Public community foundation
- f. Charitable trust
- g. Philanthropic advisor or donor-advised fund
- h. Impact investor
- i. Private equity firm / fund
- j. Investment firm / group
- k. Legally recognised/registered non-profit organisation
- l. Other

#### B. Questions about the organisation & sectors they have invested in:

1. What sort of investments have been typically made by [ORGANISATION]? [Please tick 1 relevant option]
- a. Equity
- b. Both debt & equity
- c. Debt, equity & blended instruments
- d. Debt
- e. Blended instruments
2. What is the size in terms of USD \$ or rupee value of a typical investment of [ORGANISATION]? [Please tick 1 relevant option]
- a. \$20,000 to \$50,000
- b. \$75,000 to \$100,000
- c. \$200,000 and above
- d. \$50,000 to \$75,000
- e. \$100,000 and \$200,000
3. Which development sectors does your organisation fund programs in? [Please tick all relevant options]

|    | Development Sector(s)                       | Number of programs funded |
|----|---|---------------------------|
| a. | Food and agriculture                        |                           |
| b. | Financial services (excluding microfinance) |                           |
| c. | Energy                                      |                           |
| d. | Housing                                     |                           |
| e. | Microfinance                                |                           |
| f. | Education                                   |                           |
| g. | Healthcare                                  |                           |
| h. | ICT   |                           |
| i. | WASH  |                           |
| j. | Infrastructure                              |                           |
| k. | Conservation                                |                           |
| l. | Manufacturing                               |                           |
| m. | Arts & culture                              |                           |
| n. | Other                                       |                           |

4. For each development sector, please indicate the percentage that the investment represents as a proportion of total investments. [Please tick all relevant options]

| Development Sector(s)                          | Percentage of total investments |
|--|---------------------------------|
| a. Food and agriculture                        |                                 |
| b. Financial services (excluding microfinance) |                                 |
| c. Energy                                      |                                 |
| d. Housing                                     |                                 |
| e. Microfinance                                |                                 |
| f. Education                                   |                                 |
| g. Healthcare                                  |                                 |
| h. ICT   |                                 |
| i. WASH  |                                 |
| j. Infrastructure                              |                                 |
| k. Conservation                                |                                 |

5. What was the value of investments during the current financial year, and the previous financial year. Please specify total value.

|                           |                            |
|---------------------------|----------------------------|
| a. Current financial year | b. Previous financial year |
| Year:                     | Year:                      |

6. What is your organisation's average expected rate of return for investments across all development sectors? [Please tick 1 relevant option]

- |                           |                          |                     |                          |
|---------------------------|--------------------------|---------------------|--------------------------|
| a. 0 (no return expected) | <input type="checkbox"/> | d. 10-15%           | <input type="checkbox"/> |
| b. 0-5%                   | <input type="checkbox"/> | e. 15-20%           | <input type="checkbox"/> |
| c. 5-10%                  | <input type="checkbox"/> | f. Greater than 20% | <input type="checkbox"/> |

7. Which states has your organisation funded programs in? [Please tick all relevant options]

| States            | Number of programs funded |
|-------------------|---------------------------|
| a. NCR            |                           |
| b. Punjab         |                           |
| c. Rajasthan      |                           |
| d. Uttaranchal    |                           |
| e. Uttar Pradesh  |                           |
| f. Maharashtra    |                           |
| g. Gujarat        |                           |
| h. Tamil Nadu     |                           |
| i. Telangana      |                           |
| j. Karnataka      |                           |
| k. Andhra Pradesh |                           |
| l. Haryana        |                           |
| m. Jharkhand      |                           |
| n. Bihar          |                           |
| o. Chhattisgarh   |                           |
| p. Madhya Pradesh |                           |
| q. Orissa         |                           |
| r. West Bengal    |                           |

|                     |  |
|---------------------|--|
| s. The North-East   |  |
| t. J&K              |  |
| u. Himachal Pradesh |  |

### C. Focus on education/health/agriculture/housing/skilling

- When did your organisation first start providing grants or investing in education/ health/ agriculture/ housing/skilling? (Indicate start year)
- Referring to the current financial year, what are your organisation's activities in education/ health/ agriculture/housing/skilling?

| Program/activity/investment name | Total value of investment in current financial year |
|----------------------------------|---|
|                                  |   |
|                                  |   |
|                                  |   |
|                                  |   |
|                                  |   |

- What is your organisation's expected rate of return for investments related to education/ health/ agriculture/housing/skilling? [Please tick 1 relevant option]
  - 0 (no return expected)
  - 0-5%
  - 5-10%
  - 10-15%
  - 15-20%
  - Greater than 20%
- Why did your organisation invest in education/health/agriculture/housing/skilling? Which of those motivations would you say are the most important, and why? [Please tick 1 relevant option]
  - Financial return of investment
  - Social Return/Social Impact
  - Developing future stream of employable workers for own organisation
- How are investment priorities in education/health/agriculture/housing/skilling decided? Who decides where, in which programming/sectoral areas? How? What criteria does your organisation apply when selecting investment opportunities in education/health/agriculture?
- When making decisions about funding priorities in education/health/agriculture/housing/skilling, does your organisation coordinate with or consult with any other organisations or networks? Which ones? Why?
- What was the biggest challenge that your organisation faced when investing in education/ health/ agriculture/housing/skilling? Why do you think that was so? How did the organisation respond/what did it do to alleviate the challenge?
- If you had to advise another private foundation/impact investor who wanted to invest in education/health/ agriculture/housing/skilling, what would you tell them?

|   |  |
|---|--|
| About opportunities for investing in education/health/ agriculture/housing/skilling |  |
| About minimising challenges   |  |
| About maximising impact   |  |

## D. Impact Measurement

1. Do you measure impact in your investments/programs? [Please tick 1 relevant option]
  - a. Yes, for all our investments/programs
  - b. Yes, for some of our investments/programs
  - c. No, though we plan to do so in the near future
  - d. No and we don't have any foreseeable plans to do so
2. Have you used any of the following types of indicators to measure impact? [Please tick all relevant options]
  - a. Inputs (can include money, technical expertise, relationships and personnel)
  - b. Processes (can include the design of products/services, production)
  - c. Outputs (can include products, services, financial results)
  - d. Outcomes (the benefits that a project or intervention is designed to deliver)
3. Has [INSTITUTION] ever utilised any international standardised metrics to measure impact? These include the IRIS (as developed by the GIIN) and so on. If yes, which ones?
4. What unique challenges does India face in regards to data collection and management? How can Impact Investors/impact bond designers/managers prepare for these challenges?

## E. Generic questions

1. What are the challenges that [ORGANISATION] has faced? [Please tick 1 relevant option in the column]

|   | Significant challenge | Moderate challenge | Not a challenge |
|---|-----------------------|--------------------|-----------------|
| a. High-quality investment opportunities (fund or direct)                 |                       |                    |                 |
| b. Professionals with relevant skill sets                                 |                       |                    |                 |
| c. Innovative deal structure to accommodate investor' or investees' needs |                       |                    |                 |
| d. Suitable exit options  |                       |                    |                 |
| e. Impact Measurement practice  |                       |                    |                 |
| f. Research & data on performance   |                       |                    |                 |
| g. Appropriate capital across the risk/return spectrum                    |                       |                    |                 |
| h. Government support for the market                                      |                       |                    |                 |
| i. Political conditions or barriers                                       |                       |                    |                 |

2. What are the challenges for the growth of the impact investing sector in India? [Please tick 1 relevant option in the column]

|   | Significant challenge | Moderate challenge | Not a challenge |
|---|-----------------------|--------------------|-----------------|
| a. High-quality investment opportunities (fund or direct)                 |                       |                    |                 |
| b. Appropriate capital across the risk/return spectrum                    |                       |                    |                 |
| c. Convincing decision-makers of financial performance potential          |                       |                    |                 |
| d. Convincing decision-makers of impact potential                         |                       |                    |                 |
| e. Suitable exit options  |                       |                    |                 |
| f. Demonstrating concrete examples of how peers are conducting activities |                       |                    |                 |
| g. Lack of professionals with relevant skill sets                         |                       |                    |                 |

|                                   |  |  |  |
|-----------------------------------|--|--|--|
| Government support for the market |  |  |  |
| Political conditions or barriers  |  |  |  |

**F. Impact Bond Specific Questions [YOU MAY SKIP THIS SECTION IF YOU HAVE NOT PARTICIPATED IN IMPACT BONDS]:**

1. What motivated your participation in the current Impact Bond? [Please tick 1 relevant option]
  - a. Investment return
  - b. Social return/social impact
  - c. The partnership model
  - d. Risk mitigation
  - e. Innovation & flexibility

2. Can you highlight the key challenge you faced in the current impact bond you were involved in in India? [Please tick 1 relevant option]
  - a. Legal hurdles
  - b. Operational hurdles
  - c. Measurement of outcomes & results
  - d. Coordination amongst actors
  - e. Political hurdles

3. How did you mitigate these challenges?
4. From your experience, what are the pros and cons of having multiple agents engaged in an impact bond? [Please tick all relevant options]:

**Cons:**

- a. Coordination
- b. Differing motivations for participating
- c. Rift between return focusses versus impact focused players
- d. Time to bring deal to a close

**Pros:**

- a. Flexibility
- b. Knowledge sharing
- c. Impact & outcome focus
- d. Innovation focus

5. What sort of investors and outcome funders do you think are more likely to invest in SIB/DIB projects in India? And why?
  - a. International agencies
  - b. Impact investors
  - c. Corporates
  - d. Family offices & High-net-worth individuals
  - e. Foundations
6. Intermediary/outcome funder: To what extent did you perform a portfolio assessment / due diligence of the potential investors, so as to assess financial capacity, risk appetite, ESG investment experience, etc.?
7. Investors: from your experience, what are the criteria did you consider when you calculate the return of the investment on the specific impact bond?
8. [Independent evaluator/everyone]: How was data shared between stakeholders and how often was it shared in the impact bond (you were involved with)?
9. [Independent evaluator/everyone]: How was (is) data on SIB/DIBs collected and managed in the impact bond (you were involved with)? [NOTE: probe on points & frequency of collection; and data management software used]
10. Do you see a market for impact bonds in India? What do you observe in the Indian context in order for impact bonds to expand?
  - a. Necessary government regulation in place (Legal, procurement)
  - b. Sufficient data & measurement capacity
  - c. Supportive political economy & politics
  - d. Impact investors ready to invest
  - e. Sufficient number of and buy-in from outcome funders
  - f. Sufficient knowledge of impact bonds
  - g. Sufficient contextual understanding

**G. Closing questions:**

1. Do you have any suggestions for anyone else we should contact or speak with?
2. If we have further questions or need clarification, would you mind if we contact you again?



## SURVEY QUESTIONS FOR IMPACT BOND PLAYERS

### BROOKINGS 2018

#### A. Background on organisation:

1. Organisation's Name: \_\_\_\_\_
  2. Contact Information of Organisational Representative  
\_\_\_\_\_
  - a. Name of Organisational Representative \_\_\_\_\_
  - b. Title \_\_\_\_\_ d. Phone Number \_\_\_\_\_
  - c. Email \_\_\_\_\_ e. Full Mailing Address \_\_\_\_\_
  3. Where is your organisation headquartered? \_\_\_\_\_
  4. When was the organisation established? (Indicate the year.)  
\_\_\_\_\_
  - And in its current form? (Indicate year.) \_\_\_\_\_
  5. How would you describe your organisational type? [Please tick 1 relevant option]
- |   |                          |  |                          |
|---|--------------------------|--|--------------------------|
| a. Private independent foundation             | <input type="checkbox"/> | g. Philanthropic advisor or donor-advised fund           | <input type="checkbox"/> |
| b. Corporate foundation                       | <input type="checkbox"/> | h. Impact investor                                       | <input type="checkbox"/> |
| c. Family foundation                          | <input type="checkbox"/> | i. Private equity firm / fund                            | <input type="checkbox"/> |
| d. Community foundation (privately supported) | <input type="checkbox"/> | j. Investment firm / group                               | <input type="checkbox"/> |
| e. Public community foundation                | <input type="checkbox"/> | k. Legally recognised/registered non-profit organisation | <input type="checkbox"/> |
| f. Charitable trust                           | <input type="checkbox"/> | l. Other   | <input type="checkbox"/> |

#### B. Impact bond specific questions:

1. What motivated your participation in the current Impact Bond? [Please tick 1 relevant option]
- |                                |                          |                             |                          |
|--------------------------------|--------------------------|-----------------------------|--------------------------|
| a. Investment return           | <input type="checkbox"/> | d. Risk mitigation          | <input type="checkbox"/> |
| b. Social return/social impact | <input type="checkbox"/> | e. Innovation & flexibility | <input type="checkbox"/> |
| c. The partnership model       | <input type="checkbox"/> |                             |                          |
2. Can you highlight the key challenges you faced (so far) in the current impact bond you are/were involved in in India? [Please tick 1 relevant option]
- |                                      |                          |                                |                          |
|--------------------------------------|--------------------------|--------------------------------|--------------------------|
| a. Legal hurdles                     | <input type="checkbox"/> | d. Coordination amongst actors | <input type="checkbox"/> |
| b. Operational hurdles               | <input type="checkbox"/> | e. Political hurdles           | <input type="checkbox"/> |
| c. Measurement of outcomes & results | <input type="checkbox"/> |                                |                          |
3. How did you mitigate these challenges?
  4. From your experience, what are the pros and cons of having multiple agents engaged in an Impact Bond? [Please tick all relevant options]:

##### Cons:

- |  |                          |   |                          |
|--|--------------------------|---|--------------------------|
| a. Coordination                            | <input type="checkbox"/> | c. Rift between return focusses versus impact focused players | <input type="checkbox"/> |
| b. Differing motivations for participating | <input type="checkbox"/> | d. Time to bring deal to a close                              | <input type="checkbox"/> |

##### Pros:

- |                      |                          |                           |                          |
|----------------------|--------------------------|---------------------------|--------------------------|
| a. Flexibility       | <input type="checkbox"/> | c. Impact & outcome focus | <input type="checkbox"/> |
| b. Knowledge sharing | <input type="checkbox"/> | d. Innovation focus       | <input type="checkbox"/> |
5. What sort of investors and outcome funders do you think are more likely to invest in SIB/DIB projects in India? And why?
- |                           |                          |  |                          |
|---------------------------|--------------------------|--|--------------------------|
| a. International agencies | <input type="checkbox"/> | d. Family offices & high-net-worth individuals | <input type="checkbox"/> |
| b. Impact investors       | <input type="checkbox"/> | e. Foundations                                 | <input type="checkbox"/> |
| c. Corporates             | <input type="checkbox"/> |  |                          |
6. [Intermediary/outcome funder]: To what extent did you perform a portfolio assessment / due diligence of the potential investors, so as to assess financial capacity, risk appetite, ESG investment experience, etc.?
  7. [Intermediary/outcome funder]: To what extent did you take into account the existing presence of implementing agents (e.g. NGOs/organisations delivering social programs) as a criterion for the impact bond's feasibility?
  8. [Everyone]: From your experience, what criteria should be used to vet service providers for participation in an impact bond? Could you speak to the role of scale, efficiency, and impact?

9. [Investors]: From your experience, what are the criteria did you consider when you calculate the return of the investment on the specific impact bond?
10. [Independent evaluator/everyone]: How was data shared between stakeholders and how often was it shared in the impact bond (you were involved with)?
11. [Independent evaluator/everyone]: How was (is) data on SIB/DIBs collected and managed in the impact bond (you were involved with)?
12. [Everyone]: How aligned are/should impact bond interventions be with active government policy?
13. Do you see a market for impact bonds in India? What do you observe in the Indian context in order for impact bonds to expand?
  - a. Necessary government regulation in place (legal, procurement)
  - b. Sufficient data & measurement capacity
  - c. Supportive political economy & politics
  - d. Impact investors ready to invest
  - e. Sufficient number of and buy-in from outcome funders
  - f. Sufficient knowledge of impact bonds
  - g. Sufficient contextual understanding

### C. Impact measurement

1. Do you measure impact in your programs? [Please tick 1 relevant option]
  - a. Yes, for all our investments/programs
  - b. Yes, for some of our investments/programs
  - c. No, though we plan to do so in the near future
  - d. No and we don't have any foreseeable plans to do so.
2. Have you used any of the following types of indicators to measure impact? [Please tick all relevant options]
  - a. Inputs (can include money, technical expertise, relationships and personnel)
  - b. Processes (can include the design of products/ services, production)
  - c. Outputs (can include products, services, financial results)
  - d. Outcomes (the benefits that a project or intervention is designed to deliver).
3. Has [INSTITUTION] ever utilised any international standardised metrics to measure impact? These include the IRIS (as developed by the GIIN) and so on. If yes, which ones?
4. What unique challenges does India face in regards to data collection and management? How can Impact investors/impact bond designers/managers prepare for these challenges?

### D. Closing questions:

1. Do you have any suggestions for anyone else we should contact or speak with?
2. If we have further questions or need clarification, would you mind if we contact you again?

## APPENDIX 2: IMPACT MEASUREMENT ACROSS SECTORS-

### HEALTHCARE

To standardise impact measurement frameworks and systems that are comprehensible, credible, feasible and broadly comparable in the healthcare industry, the Center for Health Market Innovations (CHMI) and the Global Impact Investing Network (GIIN) jointly developed standardised definitions for common performance health-care indicators. These metrics have now been formally included in the GIIN's IRIS catalogue and aim to support investors in measuring outcomes and impacts of their investments. Areas of focus include populations served, what service or product is provided and how they are delivered. For example, by tracking the demographic and income level of clients, healthcare organisations can use this information to provide different types of financing to different groups of clients.<sup>72</sup>

Table 26: CHMI & GIIN Healthcare Metrics Catalogue

| CRITERIA             | EXAMPLE OF METRICS  |
|----------------------|---|
| Who is being served? | <ul style="list-style-type: none"> <li>• Minorities/previously excluded patients</li> <li>• Patients with disabilities</li> <li>• Very poor patients</li> </ul> |

<sup>72</sup> The full excel catalogue or Metrics can be downloaded here - <https://healthmarketinnovations.org/document/iris-health-metrics-ms-excel>

|                            |  |
|----------------------------|--|
| What is being delivered?   | <ul style="list-style-type: none"> <li>• Disease/condition addressed (Eg: specific: infections and parasitic diseases: Tuberculosis, HIV/AIDS, Ddiarrheal diseases, maternal conditions)</li> <li>• Health intervention completion rate</li> <li>• Patient transactions</li> </ul> |
| How is it being delivered? | <ul style="list-style-type: none"> <li>• New patients</li> <li>• Sales revenue</li> <li>• Operating expenses</li> <li>• Critical equipment/facility utilisation rate</li> </ul>  |

Investors and enterprises may be interested in collecting beneficiary data broken down by demographics such as gender or socioeconomic status. While there is no common standard used by investors to define poverty levels or what constitutes a low-income customer, such calculations maybe easier to do if investors start with specific definitions and assumptions which would also allow for transparency and comparability. Currently, getting data on the income level of end beneficiaries globally is highly inefficient.<sup>73</sup> As per the GIIN study on impact measurement in the healthcare sector, most global firms develop proxies for income levels and collect data on the field. Many companies and investors use mobile health (mHealth) data where available, accessing different levels of customer data via mobile phones. Other companies also use insurance as a proxy.

In the Indian context, the government of India collects a variety of health statistics at the national, state and district levels. This includes survey data, for example from the Annual Health Survey, Rural Health Statistics of India, District-level Health Survey (DLHS), National Family Health Survey (NFHS), Maternal Mortality Ratio, SRS Bulletin, Health Management Information Systems (HMIS) and so on. Low-income users of government insurance schemes under Ayushman Bharat and the Central Government Health Insurance Scheme (CGHS) can be useful proxies in the Indian context. Impact investors can consider developing and reporting indicators in tandem with government or public sector reporting. However, since the scope of impact investing may in many cases be broader to include financial considerations, impact investors can be cognizant to this when developing and building indicators off government checklists or reporting frameworks.

For the overall health care sector, key output and impact indicators can be divided into several key categories: child health outcomes, maternal health outcomes, accreditation of facilities to improve quality of care, and public and private health infrastructure tracking. Some examples of health outcome indicators are summarised in Figure 27 below.

**Table 27: Example health indicators**

|   |
|---|
| <p><b>Chronic illnesses &amp; vital statistics &amp; communicable &amp; non-communicable diseases:</b></p> <ul style="list-style-type: none"> <li>• Prevalence of diabetes</li> <li>• Prevalence of hypertension</li> <li>• Prevalence of arthritis</li> <li>• Prevalence of disabilities</li> <li>• Prevalence of injuries</li> <li>• Prevalence &amp; awareness about HIV/AIDS</li> </ul>   |
| <p><b>Number of facilities receiving accreditation<sup>74</sup>:</b></p> <ul style="list-style-type: none"> <li>• NABH accreditation for - <ul style="list-style-type: none"> <li>• Hospitals, small health care organisations</li> <li>• Nursing homes</li> <li>• Blood banks and transfusion services centres</li> <li>• Oral Substitution Therapy (OST) centres</li> <li>• Primary and secondary health centres</li> </ul> </li> </ul> |

<sup>73</sup> [https://thegiin.org/assets/GIIN%20Network%20Insights\\_ImpactMeasurementHealthcare\\_webfile.pdf](https://thegiin.org/assets/GIIN%20Network%20Insights_ImpactMeasurementHealthcare_webfile.pdf)

<sup>74</sup> The nodal accreditation body that ensures quality of care across facilities is The National Accreditation Board for Hospitals & Healthcare Providers (NABH). It is a constituent board of the Quality Council of India (QCI), set up to establish and operate accreditation of healthcare facilities in India. Facilities receive accreditation if they demonstrate through an independent external peer assessment of that organisation's level of performance in relation to prescribed standards.

## EDUCATION

Central to impact investing is the measurement of indicators that correspond to the outcomes you are hoping to achieve. The AVPN (2017) proposed a list of education outcomes related to learning quality, enrollment, retention, attainment, holistic development, health and well-being and employability.

Advancements in technology have opened up new opportunities for the collection and analysis of impact data, and service delivery organisations are increasingly turning to tech platforms and apps to support the tracking of outcomes. Technology offers the potential to collect and analyse data in real-time, and to provide feedback loops to adapt service delivery. In the education sector, tools such as Tangerine, developed by RTI international, can be used to collect learning assessment data on tablets, and provide real-time analysis to decision-makers.<sup>75</sup>

Some examples of education indicators that industry and governments can use are summarised in table 28 below.

**Table 28: Example of education indicators**

|  |
|--|
| <b>Number of schools, school infrastructure &amp; learning resources:</b> <ul style="list-style-type: none"><li>• Number of schools</li><li>• Number of books in library</li><li>• Number of computers in functional conditions</li><li>• Availability for textbooks for students</li><li>• Availability of charts, maps</li></ul>   |
| <b>School enrollment:</b> <ul style="list-style-type: none"><li>• The Gross Enrollment Ratio</li><li>• No. of girls or excluded children enrolled</li><li>• Dropout rates reduced</li></ul>  |
| <b>Teacher training:</b> <ul style="list-style-type: none"><li>• Whether teacher took part in any teacher trainings</li><li>• Whether school principal took part in any type of trainings</li></ul>  |
| <b>Learning outcomes:</b> <p>National and international learning assessments tests exist across the board offering different levels of external validity. Some examples of these tests include:</p> <ul style="list-style-type: none"><li>• - The National Achievement Survey (NAS)</li><li>• - Trends in International Mathematics and Science Study (TIMSS)</li><li>• - The Progress in International Reading Literacy Study</li></ul> |

<sup>75</sup> <https://www.rti.org/impact/tangerine-mobile-learning-assessments-made-easy>

## Learning outcomes

Improving education outcomes in four key subjects – english, mathematics, science & social science has been measured and assessed by the government and non-profits such as Pratham, Care India and many others. Some examples of commonly accepted external tests include:

The National Achievement Survey (NAS) is a government level survey conducted for classes 3,5 and 8 in government and government aided schools. It tests English and mathematics in grade 3 and 5 and mathematics, language, sciences and social sciences in grade 7.

The Annual Survey of Education Report (ASER) is an India-wide survey of learning levels of primary school students.

TIMSS (Trends in International Mathematics and Science Study) is a large-scale assessment that is conducted in grade 4 and 8 testing students' achievements in mathematics & science. TIMSS has been developed the International Association for the Evaluation of Educational Achievement (IEA).

The Progress in International Reading Literacy Study is designed to measure children's reading literacy achievement for fourth graders. It is also conducted by the International Association for the Evaluation of Educational Achievement (IEA).

Impact investors and social enterprises can also use proprietary methods of evaluation across subjects these could test whether the student recognises and writes letters, deduces word meaning, reads and writes sentences and comprehends text for language or english skills. And include some level of testing for pre-math skills, basic arithmetic, geometry, fractions, concepts and applications of algebra, problem solving and basic numeric competency for mathematics.

## Government indicators

The National University of Educational Planning and Administration created a comprehensive database on elementary education in India under the District Information System for Education (DISE) project. In collaboration with the Ministry of Human Resource Development and UNICEF, School Report Cards are generated every few months at the district and state level covering more than 1.3 million Primary and Upper Primary Schools. NITI Aayog also produces a School Education Quality Index (SEQI) which ranks states and Union Territories' in India specifically focusing on learning outcomes and quality indicators, access outcome indicators, equity outcome indicators and on governance and management of schools. It consists of a total of 44 indicators, where higher weight is provided on outcomes rather than input indicators focusing specifically on outcome gas in access and learning for disadvantages or excluded groups.

## AGRICULTURE

To measure the social, environmental and economic impact of investments in enterprises that are active in agricultural value chains, requires an understanding of context, target populations served and product or service being offered. Most impact investments within the food agriculture space in India offer one or more of the following services – linking producers and farmers to markets by increasing yield, profitability or production and bringing sustainable products and practices. In this view, indicators in the agriculture space can cover one or more of the following larger impact metrics as summarised in table 29.

Table 29: Outcome & impact indicators for agriculture

|  |
|--|
| <p><b>Measuring improvements in farmers' yield</b></p> <ul style="list-style-type: none"> <li>• Change (percentage) in yields of crops</li> <li>• Annual growth (percentage) in value added</li> </ul>   |
| <p><b>Measuring changes or improvements in production - This can encompass a larger subset of options and activities such as:</b></p> <ul style="list-style-type: none"> <li>• Natural resource management (Eg: irrigated land as a percentage of crop land)</li> <li>• Sustainability farming techniques</li> <li>• Improvements in Soil Fertility (Soil Health Cards)</li> <li>• Improved crop varieties, improved seed technology, and innovative fertiliser application techniques.</li> </ul> |
| <p><b>Measuring improvements in farmers' income and economic well-being</b></p>  |
| <p><b>Measuring changes or improvements in farmer profits – Such as:</b></p> <ul style="list-style-type: none"> <li>• Profitability in farming improved</li> <li>• Increased access to markets</li> <li>• Change (percentage) in unit cost of transportation of agricultural product</li> </ul>  |
| <p><b>Improved access to credit, extension services and information on markets</b></p>   |
| <p><b>Improvements in efficiency of agriculture labour employment:</b></p> <ul style="list-style-type: none"> <li>• Agriculture value added per worker</li> </ul>  |

Source: Developed & built from IRIS & European Commission Working Paper

### Finance Alliance for Sustainable Trade (FAST)

An IRIS-member-driven initiative known as the Finance Alliance for Sustainable Trade (FAST)<sup>76</sup> FAST has developed a Shared Impact Assessment and Measurement Toolbox (SIAMT). The toolbox provides a set of priority indicators developed from IRIS indicators for reporting and data collection for small and medium enterprises in the food and agriculture space. The initiative focusses on data collection and analysis to ensure the effectiveness and responsible growth of lending to and investment in sustainable SMEs and value chains. The toolbox provides a guide on units of measure (hectares, acres, units sold, units produced, hours, kgs, tons) that organisations and impact investors can use.

Yield: Eg: Units/Volume Produced Income: Eg: Total Payments to farmers (supplier individuals), Sales Revenue Production: Eg: Land Directly & Indirectly Controlled: Cultivated Profitability: Eg: Cost of Goods Sold.

## APPENDIX 3: RATING SYSTEMS

B-Impact Assessment (BIA) & GIIRS is managed by the nonprofit organisation B Lab, a platform that aggregates and analyses data on over 40,000 companies' impact practices and performance. Based on the B Impact Assessment, which analyses the practice of private companies in areas of governance, employee well-being, community engagement, environmental impact, and impact on customers, companies receive a B impact score. Companies and funds that use the BIA can be recognised for their performance by electing to become a certified B Corporation or GIIRS rated.

PRISM (Portfolio, Risk, Impact, and Sustainability Measurement) is a fund performance assessment platform developed by Intellectap specifically for India. It is a rating tool which is built on IRIS indicators. PRISM integrates Fund Performance (Impact Investors) with Portfolio company impact (Social Enterprises/Investees) and provides guidance on weights and scores. Investment funds receive FCIS Score (Fund Sustainability, Intent, and Contribution). This includes tracking fund sustainability, number of investments made, track record of team, percentage stake in investees and so on. Portfolio companies receive a PIA Score (Portfolio Impact Assessment) which tracks sector-

<sup>76</sup> <https://iris.thegiin.org/users/profile/finance-alliance-for-sustainable-trade-fast>

specific indicators for beneficiary, producer & worker impact. PRISM thereafter calibrates the FSIC and PIA Scores against one or all of three indicators of impact potential. These include:

- Measuring geographical Impact Potential Assessment which includes extensive, district-wise data of India's development indicators. It assigns impact potential scores to each sector in each district based on this data.
- Financial Instrument (Debt vs. Equity) Impact Potential. This measures the impact a fund can have by using one financial Instrument vis-a-vis another and remains sector agnostic.
- Impact Potential of the stage of investment in portfolio company. If the earlier the fund invests in a firm, the bigger the role it has in helping the firm.

PRISM allocates default weights & users can adjust weights depending on context to receive a rating.

## APPENDIX 4: ASSESSMENT SYSTEMS

### SOCIAL RETURNS OF INVESTMENT

The Social Return on Investment (SROI) method evaluates financial performance alongside social returns of an investment. In financial analysis, return on investment is measured by financial loss or profit made as per the money that is invested. However, SROI puts a monetary value on social benefits, and compares both public and private benefits to costs.

Economic value is attached to social outcomes to deem whether investments or social enterprises are beneficial and having intended impacts. Indicators are developed which articulate social benefits or impact and costs or inputs are assigned monetary value with the assistance of these indicators.

The SROI includes a ratio aiding a narrative of the program and investment. The ratio is calculated as follows:

$$\text{SROI} = \frac{\text{Present Value of Impact}}{\text{Value of Inputs}}$$

Specifically, investors use measures of expected returns to internally rank potential grant applicants, comparing the impact of similar and dissimilar programs in a common language, and to assess a potential investment's fit. SROI may also be used for planning purposes when designing theory of change of business plans in order to assess to what extent impact maybe realised. Since, not all benefits and values may be easy to attach value to, which is why most investors and enterprises tend to use a variety of tools to measure these. Some of these tools include value ranking, use of opportunity cost, time or costs saves. SROI measurements are more applicable for interventions with tangible outcomes than for policy or system changes. <sup>77</sup>

### COST-BENEFIT ANALYSIS (CBA)

A simple way of measuring impact maybe conducted by a cost-benefit analysis. In some cases, CBA serves as a confirmation that the proposed investment makes sense for the investor, meaning that the social benefits realised exceed the costs.

Costs: Estimating the costs of an intervention for all stakeholders involved provides essential information about the necessary budget, as well as implications for scaling-up. These include understanding the full cost of the investment from the funders or impact investors' perspective, and the cost of conducting the program. Impact investors may compare costs to their own detailed cost

<sup>77</sup> For an example of an organisation using SROI, See Appendix 4.



analysis, historical experience in investing in those geographies or serving those beneficiaries and this can help determine whether these costs can be underbid by the investment.

Benefits: While calculating costs may be facilitated through other pilot programs and experience, estimating social benefits remains challenging. In addition to measurable outcomes and outputs, qualitative social impacts can also be achieved. While governments may be interested in both types of benefits, from an impact investor's perspective it is important to stress this distinction within the CBA. Also, short to medium term and long-term benefits need to be distinguished, thus there needs to be a common understanding of the time horizon to be considered and an agreed upon method to extrapolate long-term projections, if applicable.

## **APPENDIX 5: MANAGEMENT SYSTEMS**

IRIS is an online catalogue of impact metrics which can be used by fund managers, investors, and portfolio companies. IRIS collaborates with organisations working within the impact space, to come up with a large catalogue of financial performance metrics, operations performance metrics (such as governance policies and employment practices), product performance indicators (such as social and environmental benefits of services), sector performance metrics and social and environmental objective performance metrics. It also provides user guidance to help identify priorities for metrics given their operational and business models. IRIS remains a single reference point for metric selection, but provides no guidance on weights or prioritisation, therefore which metrics are utilised remains up to each organisation's priorities and business models. A number of organisations align IRIS metrics and create own methodologies and frameworks for measuring impact across programs.

Principles for Responsible Investment (PRI) is a framework that guides institutional investors to consider matters of environmental, social and corporate governance (ESG). In 2005, Kofi Annan standardised six principles for responsible investment in which ESG issues would be incorporated into investment practices. PRI is a voluntary network, which currently has over 1700 signatories, all of which are large-scale investment institutions.





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