**Interview with Mr. Ashutosh Tyagi, Social Finance India (7 November 2019)**

**Transcript**

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The story of SFI and IEOF - somewhere if you look at the Social Finance (SF) globally it started from the UK, somewhere towards the end of the last decade and it is rooted in the background of the founder Sir Ronald Cohen. He comes from the private equity background, having been the founder of Apax private equity and he is considered to be the father of British private equity and VC industry. Towards the early part of 2000s, he was appointed by the UK government to lead the efforts on the G7 meet which was supposed to happen which UK was chairing and during that interaction with the variety of countries he got involved with a lot of social related projects. And in the interim period before SF was launched, there was a lot of innovative financing structures which came out of those Working Groups and many of them are well established entities in the UK right now and Sir Cohen was involved with all of them. The Impact Bond (IB) as a structure also evolved partly out of this background and those interactions where the need was felt to bring in private capital also into social projects and social funding and blending it with government or other donor money that was available for various social initiatives. And this structure where a donor pays for the outcomes and in proportion to the outcomes being achieved, while the risk investor funds the program in the expectation of a return, is something that evolved out of those interactions during early 2000s to 2006-07. And the first IB got structured around that time. The work started on that in UK in Peterborough county which is a prison-related intervention about the integration of the released prisoners into society and their economic livelihood and the re-offence rate of these prisoners being reduced. That was the first IB, the UK government was the outcome payer and there were some risk investors involved in this. That is the way impact bonds have happened since then across the world. There have been close to 140 plus impact bonds that have been structured all over the world.  SF-UK led to SF-US being set up and then Israel was set up and that was the way the SF universe was till last year. Last year Netherlands and India were the two chapters which were added and now there are five SF entities in the world.

Since the launch of the first one, SF has directly been involved with close to 25% of all the IBs and has been an advisor to a majority of the balance, where either they are in geographies where SF doesn’t have presence or SF actually developed it with special team called International Development team which works out of UK which advises the various entities that are trying to form or get into IB structures themselves. So, they have become subject matter experts in this. One realization of this therefore was when you are doing impact bonds in this manner where there is one service provider, one outcome payer, may be more than one risk investor, there is a limit to which it can scale up. Because as you can imagine there are a lot of other entities who are involved, be it in contracting, performance management, outcomes assessment and all those costs become significantly large and if the program happens to be a smaller size, then these costs as percentages look pretty big. The realization or the outcome of this realization was that why don’t we look at large scale commitments from outcome payers which are for longer duration and are very similar to the kind of structures that PE funds have achieved elsewhere in the world for last 50 years or so, where the allocation of the funds to different services providers and the risk capital etc. can be allocated and that whole flow of money can be managed by an entity like SF or an Outcomes Fund. So that was how the Outcomes Fund came out of predominantly this background that bespoke IBs end up being expensive and end up being for that duration and after the bond is done you have to start again and why can’t we look at a more pooled kind of construct where outcome money is also committed for a longer duration and for bigger outcomes and what a single provider cannot provide and you choose a sector. Like education so you get a commitment of outcome payment from a variety of different kinds of donors, trusts, philanthropies, governments, individuals etc. and have a matching risk capital brought in by other set of players who are coming for social returns along with a financial returns blend. So that was the genesis of the OF construct. Before the IEOF became a reality, the Africa initiative started almost a year before India one. And this involved the Education Commission in the UK and a lot of very well-known people are involved in this structure like Gordon Brown and a lot of people from Africa itself. And around that time, there was somebody who floated the idea why not look at India also and set up a SF in India and look at Tatas. Sir Cohen had a longstanding relationship with Mr. Tata, and they had interacted and worked together on multiple things over the last many years. And that reach out happened and Mr. Tata expressed interest in coming along. Initially the conversations were more around getting Tatas to come as OPs. However, when it was seen that there was a need for an entity to be set up in India, Tatas expressed the desire to give grant to set up the entity rather commit as only OPs. So that’s been the genesis of how SFI was set up and Tatas came in as grantors to this entity, to set it up and the OF construct. All of this happened in mid-2018, around discussions started around 5-6 months before that, early 2018, but by May 2018, grant letter had come from the Tatas and the disbursal from Tatas also started in September towards the entity. Then it was about putting the team together. Even before that, Ronnie had reached out to some of the people who he knew in India and who were somehow associated with education space or with the social space and he had appointed the board. So, Ashish Dhawan, Rajiv Lall, Vikram Gandhi they came on the board of SFI even before Tata funding came in. This is the sort of genesis of SFI.

Ronnie visited India, he met the various people at the Niti Ayog and the other government functionaries etc., got a good understanding of the potential in India and went back with the confidence that India is the right place considering the challenges that education sector is facing and the structure like this can bring about the changes that can help the education sector. So that’s how it all started. Post that, from the Tatas to myself and one of my colleagues from Tata Capital we got involved in the project. I took three months before I joined. I was introduced to this by Mr. Ratan Tata himself sometime in February of 2018 and over 4-5 months I decided whether I wanted to do this and in August-September expressed the desire to lead the IEOF and joined formally on 1 November. There was another colleague from Tatas who had also joined, he is no longer with us. We had another initiative which was called India Impact Fund which was planned to be launched along with IEOF. That was the more conventional Fund which was more an impact investing fund to invest into sectors beyond education also in a more traditional manner than the outcomes-based construct.

We had couple of more people working on this project because Dr. Rajiv Lall was involved so he deputed some people from his foundation to work on this, a gentleman named Saurabh who is still working with us and from Vikram’s entity called Asha Impact, a couple of resources from there also started working very closely with the entity. All of them were working on more of a pro bono kind of manner before the funding came in. Then we had Ashish’s entity CSF also helping in defining and writing the whole approach note etc. along with that Mc Kinsey got involved, and MSDF and Omidyar network, all of these entities also got closely involved in working on the approach and the defining that. So that’s been a sort of chronology of how things happened till around November-December. Since then, one or two people left because we decided to not do the IIF. We have been solely focused on the IEOF from March this year. So that other initiative was put on the backburner around that time. Since then our first objective was to be able to express what is it that we want to do through our prospectus. We started writing our whole prospectus around that time and it took 4-5 months of writing and June July we had the document in the final form.

W recruited a few more resources from the education sectors, financial services sector who had some exposure to social sector to help with either the innovative constructs that we can bring to the space and obviously education to be able to evaluate the programs that we bring into the construct. Parallel to this there has been the deep engagement with Service Providers (SP) the delivery organizations to understand their funding requirement, to understand the programs which are top of their heap for them, the capacity building requirements int those organizations. So that was one parallel stream. The other one was around the Risk Investors (RI), about who could be the risk investors in this and for quite some time we deliberated whether we should be directly involved in setting up of the Fund which will do the risk investing portion or should we be going out case-by-case to individual potential risk investors or should we even be doing that activity at all within the IEOF. The call we took was to work with another entity who had the education sector experience and had fund raising experience and fund deployment experience and would find this interesting. That time we came across Kaizen PE which is an education sector fund. At that time, they were largely in India. Since then they have spread in SE Asia also. And this fund was setting up another fund of theirs which is a debt impact fund and they expressed the desire to commit a certain proportion of the fund they raised to IEOF construct as the risk investors. On the risk side, we took that call without keeping it exclusive, which means that on a case by case basis if we find some other investors excited about some opportunities, we will reserve the option of working with them. Otherwise Kaizen is the one who we have chosen to work with on the risk side. Now after the prospectus, alongside the prospectus being prepared, when I say that, outlining our total approach and strategy, there are elements of the strategy which are obviously not part of the prospectus which is how are we going to go about raising the money and from whom are we expecting the larger significant flows to come in. There obviously a lot of conversations, a lot of meetings, understanding of the sector, current funders to the education sector both domestically and internationally, a lot of that analysis went into that and for the moment the way we have structured this is that we have broken up into two phases - where the first phase of our approach is what we are calling the buildup phase which is for the first 4 years of our existence and that period we are counting from 2020-2024. In this phase our objective is to demonstrate how these constructs deliver better outcomes, bring in the element of measurability into the sector, make this construct work where all the entities involved, including SP to OP to RI and most importantly come out with a potential approach where we can put a price to an outcome. Now to be able to put a price to an outcome requires a decent amount of data to exist before you can go out to the world and say that okay for this outcome. As an illustration number of children who are back in the school or out of school children we brought back. Can you put a cost to this – it will be 40 dollars per child over next three years is the pricing of this outcome? And can we achieve a stage in a few years’ time, in our case over next 4-5 years where enough data, evidence and numbers exist for us to be able to place numbers in the market for which SP and RI can come forward and buy into those outcomes and those prices and the economics of that. So that is the objective of ours over a longer period of time. In the first 4 years this is the place to create enough evidence for an “outcomes rate card” approach. Second is to allow for larger government involvement into these approaches where they can come in as OP into these constructs. We strongly believe that till such time that the government gets engaged, these structures will not achieve the potential and scale that they can and that they should. If it is left at only CSR and the philanthropies etc. then the scale will remain very limited. So, governments at some stage need to come forward and say we are interested in coming as OPs. Another data point which I alluded to is that most of the IBs that have got structured in the world have been SIB where the government is the OP. So out of the 140 bonds, 130 are government funded IBs. Only a handful are where there are nongovernment entities who are the OPs.  Ideally one would have said, that why not start with the same thing in India. But in India, the government procurement is a very different process. Involvement of government into areas where government itself is a SP of sorts, because they are delivering education also, is a challenging piece. The third thing is that most of these IBs that have happened globally, they have been in slightly non-core areas, education is core and health care is core. Prison is a bit of a noncore issue, so my hypothesis which may not be true is, that the government came in because either they had the budgets for it but they were not doing it themselves and if some other SP comes forward to do this for them then they are very comfortable to committing to pay on achievement of the outcomes. But education is a core area, especially in a country like ours and most of the countries in the world, where government is itself is the delivery organization also.  So, it is a longer haul before the government will get involved because that might mean reallocating the budgets in a certain manner, or subjecting themselves to certain kind of scrutiny which they are either not used to or are not prepared to and variety of other reasons for government for not getting involved right now. Another angle of the government bit is that finally from whatever conversations we have had in many of the states, funding is not so much of an issue. The budgets many times actually do not get spend, because they did not get the right entities to support. So many times, budget gets extinguished for this reason. This is not true for the entire country and not for all programs, and in any case large part of the budget is going towards or is commitment to teacher salaries or administration and various commitments on infrastructure, toilets, etc. etc. So very little is left for programmatic interventions which are working on improvement of say learning outcomes or retention in schools or some pedagogical changes or teacher training or some EdTech intervention or something like that. So that’s the context in which we have developed our approach to say that lets first work with CSRs, with foundations, within the country and outside before we have enough evidence to start going to the government and say that look your 100 rupees spent here is likely to give you much higher number of outcomes than your 80 rupees that you are spending right now. And that 20 rupees I am referring to may be the return to the impact investor.

The buildup phase is largely focused on this source of donor money. The second phase we are calling it a ramp up phase for ourselves where we become a more deeper in terms of whole corporate community that we want to reach out to and the number of states we reach out to and the idea being that in the first phase we are targeting an average of Rs.150-200 crores commitment per year. In the next phase we are looking at doubling that to may be Rs. 300-350 crores per year only by deepening the reach by larger CSRs or larger number of states. We have identified the states where we believe we should be initial focusing and that is predominantly linked to where the CSR monies are going right now. It is not linked to bottom-up assessment it is more of top down assessment of where the money is going and there can we look at converting that commitment into an OF commitment or funding for outcome rather than the plain grant that is given right now.

Post the ramp up is the consolidation phase where we are talking about the involvement of the government also. And efforts are obviously on as we speak to get them involved but we believe that by that timeframe we should have a couple of IBs going where the government is an OP. That machinery has started moving. All of this is a ten-year plan which is linked to the SDG deadline also. So that’s how our approach is built with four years of buildup, 3 years of ramp up and 3 years of consolidation which adds up to 10 years.

That is the broad kind of thing that we are working on right now and CSR outreach is a critical part of our plan along with the international foundations and both the efforts are on quite aggressively. Now while this is a fundraising piece along side this is the piece around the SP, the delivery organizations. That is something we have undertaken also in a very phased manner. We developed our own approach on how to select entities, the kind of due diligence we need to conduct before we bring in certain entities into our programs and tools and that’s been a parallel activity for us over the last 5-6 months. We had started with close to 160 entities and we are down to almost a tenth of that number and eventually we will choose 8-10 entities to work with in the next 6-8 months and there after add in more into our list of entitles that we believe that can be taken into these constructs. We strongly believe that not any and every kind of entity should be doing IB because not all the programs are measurable. Many of the programs should not be actually brought into such constructs. Our objective is not to present this as a solution to any and every kind of service provider. From the SP, they were the ones who got most excited about the construct. Because for them if funds get committed for over 3-4 years through these constructs, it allows them to build their capacity plus achieve that whole mission orientation within their entity without fearing for where the money is going to come from. It allows a lot of innovation to happen within the organization. If you look at Safeena’s Educate Girls success story, starting from 70k IB to now they are talking about 100 million plus program of which they have got most of the commitment right now. That is the scale of story for the SP and for them, it is something that they are obviously excited and interested to see happen.

I will cover the Africa bit here. The Africa initiative obviously has followed a different approach because Africa is very different from India. One was they obviously are going country by country and in their case the involvement of the govt is very high. So, they are actually positioning themselves as the commissioning agents for the government, for lack of any other word. What it means is that if the govt has identified some problem areas in their education sector, the Education Fund there goes and helps them either identify or prioritize which one of them to work on, verbalize the kind of outcomes that they should target and to look at the kinds of programs that could be supported along with the budgeting for those programs. What EOF does is that their construct is that the govt commits to a certain percentage of the total deployment, of the total OF commitment. It varies from country to country. It can range anywhere between 15-20% to 30-35% of the commitment coming from local government. And the remaining portion is what they are looking at raising from a variety of Foundations specifically from developmental agencies, the multilaterals etc. Now, the point of difference between India and Africa comes in with this construct itself. We are working more with SPs to identify the programs that can be scaled up and which have demonstrated certain success at some level and can it be multipled in states or more depth in same state or a combination of 2-3 programs to deliver even a higher or bigger outcome. Africa on the other hand is working more with the government to conceptualize, verbalize the outcome that they should be chasing. For that, they put out the outcome in the open for service providers and risk investors to come forward and say that they are going to achieve this outcome and they are already tied up with RI. So they come in as a block to express their desire, it is like a tender of sorts where they are bidding and they are saying okay I am going to do this for this cost as you have outlined and the RI is coming in to fund that program because obviously the actual costs are a little lower and the outcome payment a little higher and the delta is what the return is. So that is the approach they have chosen and they will go country by country and may be go a bit deeper in each of the countries also. The other point of difference is we are not, whilst you would hope, that multilaterals get involved in India also, but increasingly multilaterals are given India with its economic growth and global political positioning of the country is not looking at aid money so much. Whilst there has not been decreases inflows of foreign aid money into the country but certainly it is not the most sought-after way of funding also, be it their guidelines etc. Another aspect is that multilaterals work typically in government to government kind of relationship, so many of them would want the government to be involved in any program. And their priorities vary from sector to sector at different times. For example, for the last few years, the allocations for the Swachh Bharat initiative has been very high and there a lot of Foundations and multilaterals who have diverted their funds to those areas. That’s the reason that we have said that whilst we will welcome multilaterals, that’s the explanation for reason that we decided to focus more domestically on CSR rather than extra focus or effort behind multilateral aid agencies.

In terms of the approach certainly the process has got differed there in terms of how you work. We believe we will be working very closely with the SPs, we will be cognizant of the capacity gaps that exist there and the ways of addressing those gaps and the other is that we are therefore looking at structures which are different from what the classical IB structures are also to ensure that these structures work with the structures of the entities we are working with. If CSR regulations do not allow CSR to pay a return to the risk investor than obviously CSR cannot be OP in the classical kind of a construct. So, we have worked in a unique and a different structure for the CSR in India. Purists will not call it, may not call it an IB, but frankly it does everything that the IB does, which is focus on outcomes, certain penalty for underachievement, certain incentive for overachievement and a third party assessment and full focus on regular program/performance management to ensure that everybody’s aligned towards delivering the outcome. If that is being achieved, then whether CSR gives as an upfront grant to the underlying delivery organization, where another entity is guaranteeing the performance and saying that if this delivery organization underperforms, I will make up for that underperformance by giving you money or if the entity overperforms than CSR commits to give an additional incentive bonus as an unrestrictive grant to the delivery organization. That is the broadly the kind of a structure that we have created ourselves. The LLF IB is that kind of a structure where there is a performance guarantor who is going to pay in case there is penalty. They are not putting any money upfront into the program, but they are committed to pay in case underachievement happens and the monies is coming directly from CSR into the program on annual basis like a typical grant framework agreement like they sign even today in any case. Since there is an assessment piece and assessment are expensive, there is a certain amount of money they will be paying to the assessment agency also. So, when you talk about the innovative part, it is about creating structures. A structure like this does not exist, we have not heard anyone trying to do this, it is first of its kind a large part of our job is to actually come up with innovative ways of doing things and going and convincing people in this space , be it donors, RIs, to entities of working in such structures. So, whether we have all the structures as a repository, no. But we are just trying to ensure we have that DNA to be able to come up with different structures. Like there was another structure that we were going to work with which was around getting two sets of OPs, where one is a domestic one who pays for the principal component of the structure and other OP who comes in to pay only the interest component. Because one is allowed to and the other is not allowed to. So, therefore it is a way of leveraging one guys ability to pay only the interest with somebody else’s ability to pay only the principal. Like CSR can’t pay the interest so someone comes in to pay only the interest. The innovation in our system of what we are trying is to come with newer and newer ways of bringing in performance-based structures where we are paying for outcomes and that would be the only way I would define the entity.

Innovation obviously goes beyond the structures to the way we bring entities together. Like in the pooled structures, every entity today works independent of each other, I mean the SPs. Pratham will not be working with an EG or an EG will not be working with Akshara foundation or somebody else. They are all doing their individual work in silo projects. A lot more can be achieved if 2-3 entities who are in some ways complementing each other either by kind of interventions they have or the adjacencies of their interventions within a particular area like early childhood or primary education or adjacencies in the geographical coverage. So, can there be some ways in which we can bring these SPs together. That is a significant focus from our side. And that is also another way of bringing innovation, how we bring the SPs together. The third is around the whole assessment piece. Outcome assessments can be very expensive. Our objective would be to not make those costs become exorbitant and stand out in comparison with the program costs. So, one of reasons why we are going with these pooled structures and pooled constructs is because there are some economies of scale that can be achieved. The literacy programs in Haryana and we are also doing numeracy in Haryana and say we also do socio-emotional component, we link it up in terms of starting at the same time and ending at the same time say 3-4 years, then possibility is very high that we could be doing a common assessment by a single agency and at the same time so we do not have the expenses multiplied by three, can be reduced by half or cutting across three. Another piece is the performance management here. The focus is very high on it becomes a scalable construct and the scalability will come in only if either these processes and systems get established of contracting, of enrolling the various entities, and we can achieve not exactly a cookie cutter approach but some approach which does not get limited to only one-off effort. So that is broadly on the innovation.

Many of the service providers are mature, they are increasingly willing to subject themselves to evaluation, many of them have been reluctant also because they say they we evaluate ourselves; we have mechanisms, do we have to do third party assessment. The more challenging area is the availability of data, in terms of what intervention lead to what benefit. That correlation is not very direct and attributable. In our mechanism that attribution has to be very high. So, the way you assess, through RCTs or any other mechanisms, the timing, baselining, midlining endlining, and that entity should be willing to subject itself to that rigor of self-evaluation. Which we believe many of the entities are increasingly willing to. In terms of other parts of readiness, the absorptive capacity of the system remains a challenge. There aren’t too many entities who can take in significant amounts of money, they might be interested, they may not say no to money but frankly the capacity or the construct of the organization many a times is such that just deploying money is not going to help them to deliver on the programs. They might just falter and fall rather than flourish and succeed. So actually, that is also one of main reasons why we are saying pooled funds also, 3-4 entities put together make up for a reasonable size and where of Rs 50-100 crores over the years, where each of the entities can absorb at least Rs. 10 crores, the ten crores absorbability we be there among many. A Rs 20 crore absorbability may not be there. That’s another reason why we have chosen pooled funds to be a specific size of 15 million dollars which is 100 crores say and if you look at 3 entitles over 3 years comes to around 10 crores per entity and the idea is that, as you may have read in the prospectus, the areas that we have chosen from early childhood to inclusive, there will be subsets within these, or subareas within these intervention areas. Like say teacher training, if there are 4 entities working on training in early childhood, and we create a pool around them and if there are 5 OPs/CSRs foundations etc. who have deployed money in Teacher Training (TT) or who believe that it is a critical problem to solve, and they are willing to give grants for that, then we create a TT pooled fund with 4 entities. Similarly, for interventions at secondary level, or out-of-school children or children with special needs etc. These within these focus areas, there are sub focus areas which is what we are calling pools. So, TT pool will be a 15-million-dollar pool, an EdTech pool can be 10-15 million dollar and so on.

This is the way innovation part flows and we match it with the current levels of maturity of the sector and use a step-ladder kind of approach which allows them to grow. We are very cognizant of the fact that some significant part of the funding might be required to develop the capacity of the organizations. So, therefore in the grant agreements and in the conversations with the outcome payers we are putting that upfront. Like in the case of LLF DIB, we have said in the scenario of overachievement of outcomes, there will be an incentive in the form of unrestricted funding by the CSR or the OP. That is a significant plus for any entity to aim for that, an overachievement. As an illustration, if it is a 15 crores program over 3 years, 20% of that which is 3 crores could be given as unrestricted grants on the overachievement of outcomes, which is a significant amount for lot of NGOs. Even before that, within that 15 crores program budget, we are purposefully ensuring that there are monies allocated for capacity building. Because the idea is not to just fund programs but the idea is to fund the growth of entities and so that they are quipped to deliver more and achieve bigger outcomes. That is how we are looking at the whole space.

We talked about Kaizen, we identified them only because they are in education. We have good relations with the people there. The guy who happens to be a partner there happens to be someone I have known for 24 years, he was my batchmate from college. And the managing partners happens to be from my school which goes back to 35 years. Not that I knew that I knew he was from my school before I met him but what matters is that they are from the education sector and they have this fund, the only one of this kind and they have done decently well for themselves with the kind of investment they did with the kind of involvement they have shown in those entities and they returns they managed to get, because of which there are more investors willing to put their money behind them for deployment. They have been a for profit entity but the debt impact fund that they are looking at setting up now works very well in terms of the returns expectations it has. Typical PE Fund and a typical RI will look for commercial level returns even for social projects. We were very cognizant of that that is not we would not be comfortable with because that ultimately increases the amount of money that the OP has to give at the end of the day and those amounts have to be very very reasonable so that this structure is built to have a life of its own.

We do not want this sector at least for us don’t want it to become as a sector which competes with the commercial investing sector for the RIs. We at no stage want the RIs to come in expecting 15% returns or 20% returns. We would want their returns to be muted, them to be aligned to more the social causes and the social returns their investment which they should blend with commercial returns that they get out of the project to be able to push through with their investors. If it is a direct investor, then they should know that 15% 10% is not the return they should be looking at, dollar 3-4% which in INR could be 7-8%. And the predominant reason for doing that is these costs which is the contracting, legal, the performance of programs and assessments and the returns to the RIs, all of them can add up to actually making the structure look very expensive. Which is what we are very conscious in ensuring that they shouldn’t be more than 10-15% on the outside. If an OP gives 100 rupees, anywhere between 80-85% should be going to the program and only 10-15% should be all these other costs added up. So, it is with that objective that we have been building our construct. If you remember performance guarantee structure that I talked about, there if you look at it, we have done away of the last part of those costs also. Because the RI here is actually not getting any returns because they are not putting in any capital. They are in fact further they will give money if the outcomes are not achieved and the only costs which are there add up to hardly 5% or may be even less because of the speed at which we are able to turn around. The other factor which I should mention is that typically the IBs we have come across they take a long time to put together because of the involvement multiple entities, you are literally starting from zero every time you start an IB and the lot of focus on performance management which means that you have to find subject matter experts, you have to put together teams who are going to do regular follow up, program management, talk to the teams on a regular basis, set up the process of that flow of MIS from delivery organization and share it with all participants from OP to RI, to everybody involved. Now we believe that time is money here if this takes 6 months or actually what we are told that in many of the international systems it ends up taking more than a year, structure the IB. We are working towards ensuring that it can be done in 4-5 months flat. That’s very very ambitious. The first one that we have done we actually achieved 90% of what we were going to achieve in 3 months and the balance 10% has taken another 3 months because there is always a gap between the cup and the lip. Here suddenly there were some questions which got raised by one of the OPs which we thought were addressed right in the beginning, but somehow, they had not understood or not paid attention to and we had to go back and lots of discussions, explanations etc. But the larger point that I am trying to make is that when we are talking about the innovation part of it, it is the speed, the cost, scalability of the construct which is where the innovation is. And being able to make it very independent of people. Right now, if you noticed, it is largely people dependent which means it’s me or the other people in my team, its dependent on how fast we move, or how quickly we are able to sort of things and arrange for a variety of things. Ideal world, it cannot work like that. It will have to be made independent of me or anybody else in my team. There should be a structure that people get into and that’s the only thing which will ensure that this becomes scalable. We are working towards that in terms of putting systems, process, documenting everything that we are doing right now to ensure so that for the next one there is benefit of learning of our experience and the next one we are able to avoid some of the costs or time or the processes involved. Like we have realized that the old approval process within the company which is choosing to participate has to be done in a particular manner. We got into this particular problem that I referred to, largely because they had been very quick to take an approval and they had forgotten to mention a significant part of the assessment piece in their approval. So, ultimately when they saw the assessment costs which is also written in the document, then it became a huge issue for them to go back to their board and get additional approval for the cost. This is just an illustration, but my larger point is effort has to be there to ensure that it is a scalable thing.

One critical thing which I hear from outside observers about the IB structures and the outcome funds structure is that one critical stakeholder whose development will benefit the whole sector is the entire outcome assessors. Currently the whole assessment space is very loosely manned as in that there aren’t as many entities or their methodologies or their expertise is limited and that has always been looked at as a nice to do kind of an activity rather than a critical activity. They have all expanded and invested in their own growth. So, there are very few or a handful of entities in that space and they believe that the cause of the focus on evidence and data and assessment and active research on the ground on a regular basis and not at the end of the 3 year period is very very critical to everything that we are doing. A lot of such agencies might flourish and scale up because of our presence. They are actually a critical stakeholder. Right now, we have chosen an entity called Educational Initiatives to do the assessment for us. But at some stage it would be nice for you to include them in your stakeholder list along with Kaizen and another entity you should include in your stakeholders is the legal entity, Nishith Desai Associates and Nishith Desai himself is on our advisory board. They also worked a lot with us in the initial months on the legal structures which take care of a variety of things around foreign currency, taxes within the country, not for profit nature of the entity, profits, international funds etc. They are also championing the cause of such structures being adopted increasingly in the country. Parellely, we are also working with UNDP. I didn’t mention that earlier, with whom we have link. They have set up an SDG Finance Facility, and we co-chair that with the UNDP and the idea there is to look at bringing innovative financing beyond education. So, we do not want to let go of non-education opportunities entirely. So, through that facility we will stay involved, and wherever we can provide some expertise or our global social finance entities can be involved, we are looking at it at that kind of a platform. They are looking at health care, CSRs and advocacy with the govt etc. but that is a side kind of an activity to the IEOF.

When you talk about the challenges in bringing together stakeholders, certainly it has been challenging. As I mentioned about the assessors, there are too many, that’s a big challenge. We are working with almost everyone who is there. The current LLF, the current DIB we are doing, there we put out an RFP, 5 people responded, we took them through a detailed process, all of them presented, we shortlisted a few and finally we’ll work with one. But the idea has been that it is a new space but it is not totally a virgin space in the sense because of the Educate Girls, plus a few others, there is some sort of ecosystem that has developed so people know what they are supposed to do, what not to do, the costs. The costs per se they are high. They need to come down in multiples but that would be the process of volume also going up. But it is some distance away. On the risk side actually, it is not being so complicated. RIs have been more forthcoming. Globally also what has been seen is that it is actually – when I was talking about the global SIBs being larger proportion of all the IBs, most of the RI have been the philanthropists. They have flipped over from being grantors to now the RI, where they are fine if only the capital gets returned or it gets returned even with a little bit of loss. Because they are saying, look otherwise I would have given it to you as a grant, now at least that capital is getting protected and I can deploy that money in some other program, after the completion of this bond. In India, in a way we are doing something similar with LLF where it’s the earlier grantor who is now become a guarantor in our construct which is CSF and but we do not know how many such philanthropists or such foundations exist in India who provide that initial seed grant to entities and now are confident enough about their programs to guarantee the performance of those programs. So, we do not know how many such grantors are there but that is something we have to check and verify every time we are taking this construct but that is another thing, we need to be aware of which is for how many programs can we find such kind of grantors.

Central and state governments are very very critical. As I mentioned there was a representation made to Niti Ayog right at the beginning, more than a year back and they understood the construct, they liked the construct, I have also met senior functionaries at Niti Ayog. The thing is education as a sector is that since this is a concurrent subject with significant budgets lying with the states, one has to approach it from the state side rather than the central side. Central government like MHRD etc. does play a role but a larger effort has to be state by state. We have initiated discussions and the reception has been good. However, it is a function of multiple things which is whether their concerns would be paying returns to a private investor. Their another would be around the quality of service provider selected. The assessment methodology because if you look at the government, government uses the ASER tool. ASER does something, but if we believe that it should be something which is much higher bar than what ASER measures, would the government be willing to subject its own schools to much more rigorous tool of assessment. That might come back and show that your schools are actually performing much worse than what we thought they were performing. So, any assessment is actually a commentary on the success of government programs to some extent. Therefore, that whole concern is obviously a genuine concern from their side, on either the tool or the methodology or the entity etc. etc. So, we have heard those reservations from people, it might be more valid to maybe the early childhood and primary levels than to secondary etc. because secondary assessment is relatively simply because we have 10th and 12th exams in the country which are assessments. But the early childhood and primary education is more complicated to assess, more direct child by child kind of assessment happening. So, what we have heard from the government is that they would love to get involved at some stage. That is our ultimate objective, I personally would feel like this construct has having not succeeded if it does not get government as an outcome payer in the next five years. The process will start, but by 5th year of our operation. I would expect the government to come in with 20-30% of funds commitment to all our outcome fund commitments and going more as we progress to 2030.

Course corrections have been you have got the gist – shifting from international to CSR, domestic fund raising before international, moving to govt fund raising also. What was intended and what remains to be achieved - I think we are pretty much on track in terms of at least our approach getting finalized, everybody buying into that approach. Initially and even to today to some extent there is a desire amongst our board etc. that these constructs are supposed to change the way the large foundations give money. And in Sir Cohen’s mind, he expects the cheque writing to shift from 1 million, 5 million or 10 million dollars to 50 million and beyond. Now that I think is some distance away. Specially in the Indian context for the various reasons I mentioned. One additional reason is that any grant giving which foundation or anybody does it can’t be blind giving in the sense that they can’t just put that money into the pool and expect that entity to deploy to whichever program they have chosen thinking that it will cover the risk investor they have chosen. Any grantor we believe wants to be involved in the program They are involved givers, larger the cheque, larger the involvement. Or you need to be the kind of an entity that has reached that kind of scale, achievement and visibility matrix, that people are willing to just put in the funds into you. But that also driven by the personality of who is leading the entity and that is not driven by the program also many a times. In that sense, there is a bit of a gap between the expectation of large cheque sizes versus our belief that it is going to be small small drops that will add up to a pool of water. And that we need to involve the OP or be very closely aligned with OP area of interest or even the SPs area of preference. For us, it is a bit of an iterative process, where either there are SP that OPs like and have been funding for some time and now that program is scaling up, we bring in more OPs or we have identified somebody and it matches a certain OP and the pool is there. So, there would be matching the OPs with SPs and not a blind pool investing is what we understand.

Designing the first DIB, it has to be a top down process is what we have realized. When I am referring to the OPs, you need to get in the key decision maker or key decision influencer excited and convinced about the construct and the project before you start dealing with the executing team. The reason being every word you go up from the executing team, many a times a lot of things may not get communicated in terms of the structure. We have found that people find it difficult to comprehend the structure. They do not understand it the way it is spoken immediately. Most of my conversations end up being couple of hours conversations. Not because it is complicated but because people have not been exposed to it and many of the people sitting on their side have not been too involved with financial constructs. Even if there is nothing rocket science about what we are doing, its plan simple vanilla, but sometimes I have felt that, in many of the organizations, I am talking of especially CSR teams etc., quite a few numbers of guys do not get it the first time. Like why will the risk investor give, who will give money, why will we give a return, why should there be an assessment etc. etc. So, it takes some time, therefore one experience has been that it is a continuous teaching process, it is a concept selling process, it is a top down process, it requires actually tiptoeing the people and ensuring that you have taken them all along. The last part of giving has been ego driven kind of giving. I would not use the word uninvolved completely but it has also not been very active giving also many a times. Because they started with compliance driven until now. Of late it has started becoming more strategic and people are also increasingly looking at themselves as catalytic sources of money. So, the more progressive CSR are more interesting to work with, not only do they get the construct but are also keen to see the construct become successful.

Main challenges today confronting us one is to create these pools and bring together SPs with some common threads which links up these SPs. Be it the area they are working on or geographies or the kind of interventions they have or some complementarity to their programs and that is quite a task. Because you are working with one entity which has always worked in Karnataka and another entity which has always worked in Bihar and you are trying to do a program in Madhya Pradesh.  All of that is decently complicated to think through. The second challenge is to get the right kind of people in the system. There is no one who has done this before. I have not done this, nobody in my team has done this before. So are there any experts who exist who do this, no. Therefore, it needs to people who get attracted to this they need a significant amount of drive to be doing this. Education sector guys, there are quite a few. I have seen lot of people studied internationally at the best of the universities, Oxford and Harvard and wherever and they are working in the education sector in India and that pool is there. But the financial structuring expertise or this unique fund-raising kind of expertise which is more of business development and concept selling expertise is something which is a challenge. The third is to manage the whole entity and I mean SF because we are a nonprofit grant funded entity, to ensure sustenance and survival of the entity before it reaches scale and size where some of these activities that we are doing start generating some revenue for us. That is again a challenge to ensure our grant money is utilized properly for right kind of activities and the costs are kept at a level where we have that longevity before the revenues kick in – as fee income from OPs or RI or something like that.

Other challenge is of advocacy with the key decision makers with the CSR etc. even with the govt. and right now, actually last year a lot of time earlier this year also time went in CSR presentations and some changes etc., some of this has happened already, be it that roll over or escrow account thing that govt came out with. But we would certainly expect that CSR will be allowed to put money into Funds, not in PE but pooling in money in some manner. That is one significant challenge. How we address these is seeking new partners and working with them closely. On advocacy it is a joint effort, it’s not only we will go and make presentation, we’ll ensure that we are part of various bodies that exist, who can make those presentations.

Key lesson has been enrollment of all the people into the larger vision. That is the biggest takeaway, everybody should be on the same frequency, understand it exactly at the same level and we require all hands-on deck on this, be it grantor, board or team members. That is very critical. We are going something pioneering and challenging and fraught with lot of reasons why it shouldn’t succeed. Therefore, enrolment and alignment of everybody involved is critical and that is a key lesson. Anyone who is not should step out or aligned or should be contributing to a moving in a different direction if that is a better direction to take. This is not one of those things where today you move in one direction and five months later go in another and sometime later another direction. Then you will see you were at the same starting point. So, for design and operationalization that is the important lesson.

The other is the importance of partnerships and contributors who are from the larger industry. Be it academic groups, be it other influencers like Centre for Social Impact and Philanthropy at Ashoka, individuals also be it like people like Amit Chandra, Ashish, or Niti Ayog, one needs to work closely with them and other multilateral bodies that exist.

Another lesson would be recruiting the team which complements each other. It has to be a right blend of people who are strategic ideators and thinkers plus who are execution-oriented. It is easy to become an ideator here and jump into trying to do something without having thought through. It requires right complementarity in the team also.

Other is flexibility and adaptability – you need to be not married to a particular construct and not totally binding ourselves that is very critical learning mindset is very important. The other is the humility part of it. What I mean by that is since we are coming in as sort of an intermediary, as a platform as a convener at no stage should we start looking ourselves as an entity as doing something great by obliging the service provider by making money available to them. The effort that we need to make to understand and respect the programs of the entities is very important. And that humility is important to be able to work with the people in building programs and structures and pools. It requires patience, that is also top of list. And dealing with ambiguity which is high up there because there is nothing that exists already, no template there where one can say this is done in Africa so we copy paste it in India or it is done in Haryana so we can do it in Maharashtra. So, there is a need to be continuously keeping a very open mindset and learning experimenting and being innovative in what we do. These apply to even the DIB in terms of the design development and operationalization, which is good selling skills, working with people and convincing them how they can be involved, it is about giving importance to every single person in the ecosystem whether the person is contributing only one-tenth or 90 percent in the outcome funding, we have to give them respect, and that is very important. Since we are convening it, we are holding the clock, we are managing the time. That requires a significant amount of project management expertise, we do not spread to fill time because that is easy to happen, when you let go at times wait for someone to respond and we have not heard back and a few months pass by. That’s another angle here.

As the entities name itself says it requires a unique blend of social universal values and the finance part of it should be little less, according to me. We shouldn’t end up creating it as investment backing or PE entity. It has to come from a social angle because of the catalytic role that this entity can play and should play to make the structures work. If we end up becoming like some deal makers only who are bringing capital to the sector then frankly our role would be a very limited role and I don’t know how many people will find it as an exciting role because in the commercial sector at least when you are a deal maker you have an upside - there is some commercial interest, *paise milte hai* whatever. Here whether I do a hundred million dollar or one-million-dollar deal or whether I put 6 months behind it or 3 years, there is nothing else that happens to the individual. What gives them satisfaction is actually the social part of it that they are involved in something that is changing the way things happen, delivering more than what has ever got delivered and which will make some difference on the ground. This is critical not only for the DNA of the entity and but everything you are doing and also the people you will get on board.