

INDIA EDUCATION OUTCOMES FUND

A Teaching Case Study

Prepared by
**Tata Institute of
Social Sciences**

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Preface

This teaching case study on the India Education Outcomes Fund (IEOF) initiative of Social Finance India (SF-IND) has been developed by Tata Institute of Social Sciences (TISS), Mumbai with the financial support of NORRAG, Geneva. This work is undertaken as part of a larger project of developing teaching case studies on innovative financing in education which is being carried out through an inter-university partnership project with Consortium of Education and Research (COFER), funded by the “Swissuniversities Development and Cooperation Network” (SUDAC) in Switzerland. Tata Institute of Social Sciences is part of this collaborative project along with six universities across different continents.

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This case study may be used by itself or along with the accompanying videos on the subject. Teaching Notes accompanying the case study may be referred to for laying the learning objectives, structuring class discussion, providing additional readings and engaging participants in exercises.

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Executive Summary

The 2030 Agenda for Sustainable Development resolved to create universal literacy and provide inclusive, equitable, and universal access to quality education at all levels. It also called for a revitalized global partnership for realizing the implementation targets by 2030. The report of the Education Commission in 2016 estimated that the global funding gap to ensure quality education for all children was USD 1.8 trillion per year. In India, the size of the financing gap is estimated to be USD 740 billion for the period 2015-2030. Although the government remains to be the single largest contributors of education financing, its allocation of 3.4% of the GDP (USD 63 billion annually) fall short of the 6% target enunciated in the national education policy and the Education 2030 Framework for Action.

There is an increasing involvement of the private sector to fill in the gap. India has seen an expansion of private spending on education. Out of a total of USD 133 billion annual market of education in India, the annual private spend is USD 56 billion. With India's economic growth and global positioning, it is not seen as a poor, developing country. As a result, foreign aid inflows to education in India have declined. The statutory obligation of Corporate Social Responsibility (CSR) has helped release funds from the private sector for social causes. India is also seen as one of the most attractive markets for impact investing worldwide.

This case study showcases the process of establishing a catalytic platform, the India Education Outcome Fund (IEOF) of Social Finance India (SF-IND), for providing sustainable and innovative funding at scale for delivering education outcomes. It presents various issues encountered, choices made and implementation mechanisms considered for adoption in the marketplace.

Social Finance India (SF-IND) was established in 2018 as a nonprofit organization with the financial support of Tata Trusts and the Global Steering Group for Impact Investment (GSG) for harnessing capital to address social challenges. It is part of the Social Finance Global Network (SFGN). SF-IND set up the IEOF with an aim to create transformational impact in Indian education through funding USD 1billion of outcomes-focused activity by 2030. As far as status of education is concerned, India has achieved access and participation of children in education and the biggest issues are that of learning crisis and equity concerns.

The IEOF platform differs from existing traditional funding mechanisms of education as well as the typical impact bond structures on education. It is designed to address and overcome the problems and limitations currently experienced in these funding arrangements. As a marketplace, it is intended to create impact at scale and address the limitations of individual, bespoke development impact bonds (DIB) and structuring processes. As a platform, IEOF works towards bringing efficiencies and thereby lowering administrative costs.

The IEOF has identified five thrust areas on which innovative financing mechanisms are being developed. They are: Early Childhood Education, Foundational Learning Skills, Secondary Learning, School to Workforce transition, and Inclusive education (learning and intellectual disabilities) thereby covering the entire spectrum of education sector. Work on these thrust areas is being done through a phased manner that is planned over the course of ten years aligned with the Sustainable Development Goals deadline of 2030.

The IEOF has currently:

- ✓ Developed and convened all partners to launch the first-in-the-world innovative structure with their first pilot impact bond
- ✓ Developed a strategy to deploy outcomes funds over a ten-year period
- ✓ Conducted thorough due diligence to evaluate 150+ service providers
- ✓ Consulted with industry experts to validate the approach
- ✓ Secured commitments for risk capital
- ✓ Evaluated multiple forms of funding engagement for risk and outcome funders

The process of setting up the marketplace has involved the following key aspects:

- **Ensuring supply of high-quality interventions**

This is done by conducting a service provider landscape analysis, two rounds of due diligence and using a decision tree to determine what interventions are DIB-able.

- **Securing investments and pricing outcomes**

This involves raising the risk capital for funding the mechanisms. This will be done by a private equity firm working in the education sector. The determination of outcomes and pricing them is an important exercise. Given the existing gap in reliable data to help this process, the IEOF has adopted a two-wave approach, where in Wave 1, existing proven programs will be scaled, and evaluated to set benchmark for success and prices per outcome. In Wave 2, there will be a greater emphasis on the competitive cost of an outcome and service providers will bid on specific outcomes through a rate card approach. Determining the payment metrics is challenging and is based on certain guiding principles.

- **Designing financing mechanisms**

Given the absorptive capacity of the sector, needs of the sector and prevailing regulatory regime, the IEOF has designed pooled DIBs that would operate in each of the thrust areas bringing efficiencies through scale. It may also explore alternate mechanisms such as Social Impact Incentives and Social Success Notes. A pilot DIB with an unconventional structure is designed for launch in 2020.

- **Formulating contracting structures**

One of the most complex challenges in innovative financing mechanism is formulation of contracting structures. The IEOF is considering direct and intermediated structures. As an intermediary, the IEOF is the key agency which contracts with all parties and coordinates the mechanism.

- **Planning for Monitoring, Evaluation and Capacity Building**

The process of setting up the ecosystem also involves putting in place a robust system of performance management to ensure that the investment risks are minimized, empaneling independent evaluators who can assess if the intended outcomes have been achieved and payouts can be made and also building capacities of service providers to work within the new ecosystem and providing them incentives.

During this process, stakeholders have encountered several issues and challenges. The case study discusses two types of issues. Organization-related issues are those that affect the establishment and work of IEOF. These include getting the right kind of people to work with IEOF, working through a top-down process to sell the idea and get the key decision makers or influencers excited and convinced before working with other stakeholders and the need to place greater emphasis on grit among all stakeholders so that they do not abandon the process mid-way but make it work till the end.

There are some mechanism or instrument-related issues. First, the impact bond as an instrument is not an appropriate answer for all educational challenges. Since not all outcomes are easily measurable and there is a concern if impact investing will fund and take up only those programs that aim to achieve measurable outcomes and leave out programs that are worthwhile but cannot be easily measured with the existing tools. This may lead to segmentation of the education sector, where certain challenges are “DIB-able,” and certain organizations are “DIB-able.” The second issue is that between supporting experimentation and proven initiatives, there is a challenge to search for that sweet spot which balances the two. The question which needs to be assessed on a case-by-case basis is ‘how much risk is acceptable to the parties involved?’ Third, there is a strong criticism that the idea of tapping into nonconventional funding is not occurring because it is the same philanthropic funding that is getting tapped and channelized into impact bonds. Fourth, the legal, tax and regulatory norms in India impose a number of restrictions on philanthropies, foundations, CSRs that are trying to engage with the new ecosystem. Fifth, the cost of setting up the ecosystem and its claimed efficiencies are issues that deserve further study. Factors such as readiness of the sector, pipeline of DIB-able programs, regulatory norms, and the availability of investors and outcome payers create serious impediments to scaling, thereby making the process inefficient. Lastly, planning for sustainability of the IEOF platform is also a challenge, given that the business model for funding the IEOF as an intermediary has not been tested yet.

Context

The 2030 Agenda for Sustainable Development¹ resolved to create universal literacy and provide inclusive, equitable, and universal access to quality education at all levels. It also called for a revitalized global partnership for realizing the implementation targets by 2030. The report of the Education Commission in 2016² estimated that the global funding gap to ensure quality education for all children was USD 1.8 trillion per year. In India, the size of the financing gap is estimated to be USD 740 billion for the period 2015-2030.³ Although the government remains to be the single largest contributors of education financing, its allocation of 3.4% of the GDP (USD 63 billion annually) fall short of the 6% target enunciated in the national education policy and the Education 2030 Framework for Action. This gap in funding poses a threat to the opportunity of reaping the demographic dividends.

India has also seen an expansion of private spending on education. Out of a total of USD 133 billion annual market of education in India, the annual private spend is USD 56 billion.⁴ There is an increasing involvement of the private sector to fill in the gap. This investment is evident in the core education (provision of K-12 and college), parallel education (preschools and tutoring) and in ancillary education (textbooks, education technology, etc.) accounting for nearly USD 55 billion annually.⁵ With India's economic growth and global positioning, it is not seen as a poor, developing country. As a result, foreign aid inflows to education in India have declined. There is a greater emphasis on mobilization of domestic resources. The statutory obligation imposed by The Companies (Amendment) Act, 2014 on the corporate sector to spend 2% of their average net profits of three years for social causes, commonly referred to as Corporate Social Responsibility (CSR), has helped release funds from the private sector. India is also seen as "one of the most attractive markets for impact investing worldwide. High demand for investments is likely to continue as a result of a growing population, underlying economic growth, stable financial markets with a strong rule of law, combined with large unmet social needs."⁶

On the other hand, although access and participation in schooling has been largely achieved, the learning crisis is being seen as a biggest challenge in the education sector with national standardized tests such as National Achievement Surveys and Annual Status of Education Reports showing poor learning outcomes. Inequities in education also pose complex challenges to the Indian education system. On this background, the focus of educational interventions is becoming more outcomes-focused and results-driven. The success of Educate Girls

¹ United Nations (2015). Transforming our world: the 2030 Agenda for Sustainable Development. Resolution Adopted by the General Assembly on 25 September 2015.

https://www.un.org/ga/search/view_doc.asp?symbol=A/RES/70/1&Lang=E

² The International Commission on Financing Global Education Opportunity (2016). The Learning Generation: Investing in education for a changing world. https://report.educationcommission.org/wp-content/uploads/2016/09/Learning_Generation_Full_Report.pdf

³ 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 Delhi, India: Devalt.

⁴ Kaizen (n.d.). Understanding the Sector. Kaizen Education (KE) Report. Update 2.1. p. 7.

<http://www.kaizenpe.com/kies2014/pdf/Kaizen-Education-Report.pdf>

⁵ Kaizen (n.d.). Understanding the Sector. Kaizen Education (KE) Report. Update 2.1.

<http://www.kaizenpe.com/kies2014/pdf/Kaizen-Education-Report.pdf>

⁶ Pandit, V. and Tamhane, T. (2017). Impact Investing: Purpose-driven Finance Finds its Place in India. Private Equity and Principal Investors Practice. McKinsey & Company. <https://thegiin.org/assets/Impact-investing-finds-its-place-in-India.pdf>. (p.13).

DIB, the first Development Impact Bond (DIB) on education in Rajasthan stirred national and international interest in the new mechanism among different stakeholders.

It is on this background that the process of setting up an ecosystem for innovative financing through pay-for-success kind of mechanisms needs to be understood. This case study showcases the process of establishing a catalytic platform, the India Education Outcome Fund (IEOF) of Social Finance India, for providing sustainable and innovative funding at scale for delivering education outcomes. It presents various issues encountered, choices made and implementation mechanism adopted in setting up the marketplace. Such a focus on the process is expected to generate discussion and reflection on the potential of and challenges involved in setting up an ecosystem for innovative financing in India.

Establishment of Social Finance India

Social Finance India (SF-IND) was established as a nonprofit organization with its office in Mumbai with the financial support of Tata Trusts. Its mission is “to harness capital to address social challenges where outcomes are poor, where the system is acknowledged to be failing and where the costs of failure are high.”⁷ It is part of the Social Finance Global Network (SFGN), with sister organizations in United Kingdom, United States, Israel and the Netherlands. Started in 2007, the Social Finance UK pioneered outcome-based financing with the Social Impact Bonds and was founded by Sir Ronald Cohen, who brought in his experience in private equity and the work he chaired on the Social Investment Task Force for the HM Treasury. Being directly involved in over a quarter of all the impact bonds and being in advisory capacity for a vast majority of the other impact bonds, across the world, Social Finance was already established as subject matter experts in impact bonds and innovative financing.

By 2017, there was a realization that individual, bespoke impact bonds with one service provider, one outcome payer, and one or more risk investors have an inherent limit to what they can scale up. The costs involved in contracting, performance management, outcomes assessment become high and inefficient. Therefore, going for large-scale commitments from outcome payers for longer durations, allocating funds to different services providers, and managing the whole flow of money by an entity like Social Finance or an Outcomes Fund, was considered to be a worthwhile proposition for India. So, in August 2017, when Mr. Ratan Tata, Chairman of Tata Trusts⁸ and Sir Ronald Cohen met, the need to establish an entity that would anchor outcome-focused financing at scale and align with achievement of the Sustainable Development Goals in India came up. Tata Trusts is one of the largest philanthropies in India and has given USD 303.5 million between 2013-15 for various developmental activities.⁹ Mr. Tata expressed interest in supporting the establishment of the entity in India. Sir Cohen reached out to some of the people associated with education sector and the social sector in India and constituted the Board. He also met officials at the Niti Aayog, the national planning agency, and bureaucrats to understand the potential for such structures in India and was convinced that the challenges confronting education sector in India can be

⁷ India Education Outcomes Fund Prospectus 2019. p. 29.

⁸ The [Tata Trusts](#) has been one of the oldest, largest and non-sectarian philanthropies in India working across various portfolios and regions of India. It comprises allied Trusts and philanthropies. According to the [Annual Report 2018-19 of Sir Dorabji Tata Trust & Allied Trusts](#), USD 66.59 million were disbursed as grants with eight percent going towards education projects. According to the [Annual Report 2018-19 of Sir Ratan Tata Trust & Allied Trusts](#), USD 156.35 million were disbursed as grants with six percent going towards education projects.

⁹ OECD (n.d.) Global Private Philanthropy for Development: Preliminary results of the OECD Data Survey. <https://www.oecd.org/dac/financing-sustainable-development/development-finance-data/Preliminary-results-philanthropy-survey.pdf>

addressed by outcome-based innovative structures offered at scale. Thus, Social Finance India (SF-IND) came into being in 2018 with the support of the Tata Trusts and the Global Steering Group for Impact Investment (GSG)¹⁰.

Even before the organization was officially set up, the core team of the SF-IND was coming together. The SF-IND Lead was directly identified by Mr. Tata, and others were deputed from organizations headed by the Board members of SF-IND. During the launch of SF-IND in October 2018, two funds of USD 1 billion each were announced – the India Education Outcomes Fund (IEOF) and India Impact Fund of Funds (IIFF).

From March 2019, the SF-IND is solely focused on the IEOF which is meant to build an ecosystem for impact investing in the Indian education sector. The IEOF is the first fund of its kind that aims to catalyze private, social and government sectors and to work at scale. The IEOF is expected to raise and disburse USD 1 billion to education outcomes through innovative financial instruments by convening partnerships across investors, service providers and outcome funders to address India's most pressing education challenges.

Theory of Change

The idea of setting up IEOF as a marketplace for innovative financing mechanisms emerged in response to the **key problems** confronting financing of education in India and its **value propositions** are in comparison the available financing mechanism. Let us look at each of these, before reviewing IEOF theory of change.

Problem Statement

The IEOF responds to two key problems related to financing of education in India. These problems can be categorized into [a] problems with regards to government allocation to education, and [b] problems faced by the nongovernmental organizations working in the education sector.

Government allocation to education

As mentioned earlier, the current government spending on education is not enough to meet the targets set by the SDGs. Furthermore, budget allocations are restricted, with a large proportion going into teacher salaries and administrative costs, with only a small proportion going towards improving the quality of education and trying new ways of working. Government bureaucracy also creates a challenge to bring different stakeholders together for working on shared goals and targets at scale.

Problems faced by nongovernment organizations

Nongovernment organizations run a number of educational interventions in the education sector in India. Although they work at a small scale and cannot replace the government in its responsibility of providing and financing education to all, they offer innovative programs that can help improve access and quality of education. One of the problems faced by those working in the school education sector is the insecurity about receiving funding and continued funding to implement their programs. Even the funding that is provided is likely to be restrictive in terms of what inputs and activities can be funded and what cannot. Organizational leaders spend considerable time with fund-raising leaving less time to provide strategic direction and leadership to the implementation effort. Organizations need greater flexibility to innovate, design strategies and scale, along with opportunities to synergize and link with other stakeholders. Organizations have been traditionally focused on delivering inputs and focusing on the process and there is an increasing requirement from the donors for greater accountability for production of outcomes.

¹⁰ The [Global Steering Group for Impact Investment](#) is “an independent global steering group catalyzing impact investment and entrepreneurship to benefit people and planet”. It was established in August 2015 and succeeded the Social Investment Task Force (SITF). It has 23 members (including India) plus the EU as members. It is a charity registered in England and Wales.

Value Propositions

The IEOF platform differs from existing **traditional funding mechanisms of education** as well as the **typical impact bond structures** on education. It is designed to address and overcome the problems and limitations currently experienced in these funding arrangements.

At present, most of the traditional grant-making in education is costly with individual contracts, is input-based, and has relatively lesser focus on efficiency in production of outcomes. Furthermore, the outcomes are likely to be fragmented across outcome areas reducing the potential of creating impact. In comparison to the **traditional individual program funding**, the value proposition of IEOF can be summarized as follows:

1. Central contracting capability: will help in reducing contracting costs by using a common central mechanism to disburse funds across multiple programs;
2. Encouraging price competition: will lead organizations to deliver quality outcomes using the most economically efficient means;
3. Mitigating performance risk: will aggregate outcomes achieved across a portfolio of programs;
4. Open-ended India-specific data development: will build a centralized repository of knowledge that can help inform future scaling of interventions;
5. Adaptive management styles: will raise the odds of success by measuring and changing course during an intervention and responding to ground reality
6. Catalyzing sustainable funding: will be enabled by creating a larger platform of specialist working capital, creating a longer-term stable source of funding and capacity building for service providers.¹¹

The IEOF is a marketplace intended to create impact at scale. It is designed to be different from **a typical impact bond structure** or **Development Impact Bonds Version 1.0**. As seen in Figure 1, Version 1.0. of Development Impact Bonds (DIB) generally start with an investor providing working capital to a service provider. The investor can be anybody who is willing to take the initial 'risk' of covering the costs of a program upfront. The service provider could be a nonprofit or a for-profit social enterprise that implements the program with the help of the working capital and reaches to a set of targeted beneficiaries. The outcome evaluator is a third-party independent agency that assesses the outcomes achieved and submits a report to the outcome payer. An outcome payer is a body that has contracted to pay the investors their principal amount invested and an interest based on the results achieved. When the outcome payer is the government, it is called a social impact bond. In some cases, outcome payers also pay incentives to the service providers based on the results achieved. Each DIB is designed and structured with contractual obligations about agreed outcomes and targets, time-frames, payments, evaluation metrics and methods and other details.

¹¹ Social Finance India, India Education Outcomes Fund, and GSG (2019). India Education Outcomes Fund Prospectus 2019. (p. 79).

Development Impact Bonds Version 1.0.

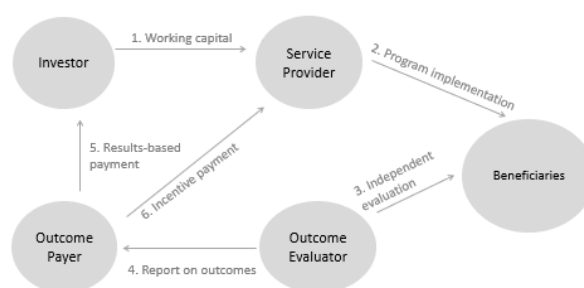


Figure 1. Structure of Development Impact Bonds Version 1.0.¹²

As a marketplace, the IEOF is designed to create impact bonds at scale and address the limitations of impact bonds Version 1.0. Its value proposition can be summarized as shown in Figure 2. In terms of the commissioning structures, typically, impact bonds have been structured as individual, bespoke deals, with lengthy negotiations and structuring processes. IEOF seeks to accelerate the contracting time by developing pooled funds and thereby lowering administrative costs. The “IEOF will move impact bonds from one-off agreements to working at a greater, more efficient scale.”¹³ The standardization of processes will bring down the costs, and using a rate card approach will allow multiple contracts per issue area. Impact bonds at scale will be able to create larger pool of outcome funds by offering multiple similar contracts per issue/area. The overheads of contracting as well as the high costs of evaluation can be brought down when offering impact bonds at scale. In other words, while Impact Bonds V1.0. work as small and expensive pilots today, the IEOF is a cost-effective and efficient platform that will deliver impact at scale.

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Impact Bonds V 1.0.		IEOF – Impact Bonds at Scale
Bespoke, individually designed contracts - with most DIBs designed in isolation/ ‘reinventing the wheel’	➡	More standardized contracts, processes, legal structures - building and sharing public goods for efficient structuring and commissioning
Small scale, pilot contracts, with small pot of outcome funds relative to the contracting cost	➡	Larger pools of outcome funds per rate card, allowing larger DIB contracts and / or to ‘plug and play’ across multiple similar contracts per issue or area
Individual projects - that each require all the overheads associated with structuring an impact bond	➡	Pooled funds for programs - commission multiple contracts, and central expertise and resources to structure contracts
High cost, bespoke M&E program (e.g., RCTs)	➡	Cost-effective evaluation, leveraging technology and existing evaluation frameworks to ensure M&E can be achieved at high quality and low cost

¹² Adapted from Ziswiler, M., & Terway, A. (2019). Tackling the global education crisis: the UBS Optimus Foundation’s use of social finance. In Ridge, N.Y. and Terway, A. (Eds), *Philanthropy in Education* (pp. 54-69). Edward Elgar Publishing.

¹³ Social Finance India, India Education Outcomes Fund, and GSG (2019). *India Education Outcomes Fund Prospectus 2019*. (p. 22).

Figure 2: Impact Bonds Version1.0. versus Impact Bonds at Scale¹⁴

The IEOF Theory of Change is shown in Figure 3. As mentioned earlier, the overall **vision** of IEOF is to create transformational impact in Indian education through funding USD 1billion of outcomes-focused activity by 2030. Its **mission** is to create an ecosystem that can launch scalable outcomes-focused solutions to address India's pressing education challenges with the help of skilled service providers, investors and funders. Its current **strategic priorities** are first, to raise risk capital and outcomes funds to invest across multiple interventions; second, to design strong delivery, evaluation and performance management with all stakeholders; and third, to identify and scale proven, high-impact and high-potential interventions.

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The **outputs** that will be delivered include [a] prioritized investment opportunities, based on proof of scalable impact, [b] financial instruments to mitigate risk for outcome funders and risk investors, [c] a robust performance management framework for a phased approach, [d] a clear platform for engagement to facilitate strong working relationships with all partners, and [e] strong relationships with state governments to mobilize investments at scale.

The **outcomes** that IEOF aims to achieve are: funding to scale proven impact is catalyzed and aligned with national priorities, a portfolio investment model is created to maximize the potential for all investors, outcome funder money is stretched further by having them pay only for outcomes achieved, funding under corporate social responsibility is innovatively and effectively utilized and an ecosystem of accountable service providers, investors and funders able to work at scale is created.

¹⁴ Social Finance India, India Education Outcomes Fund, and GSG (2019). India Education Outcomes Fund Prospectus 2019. (p. 22).

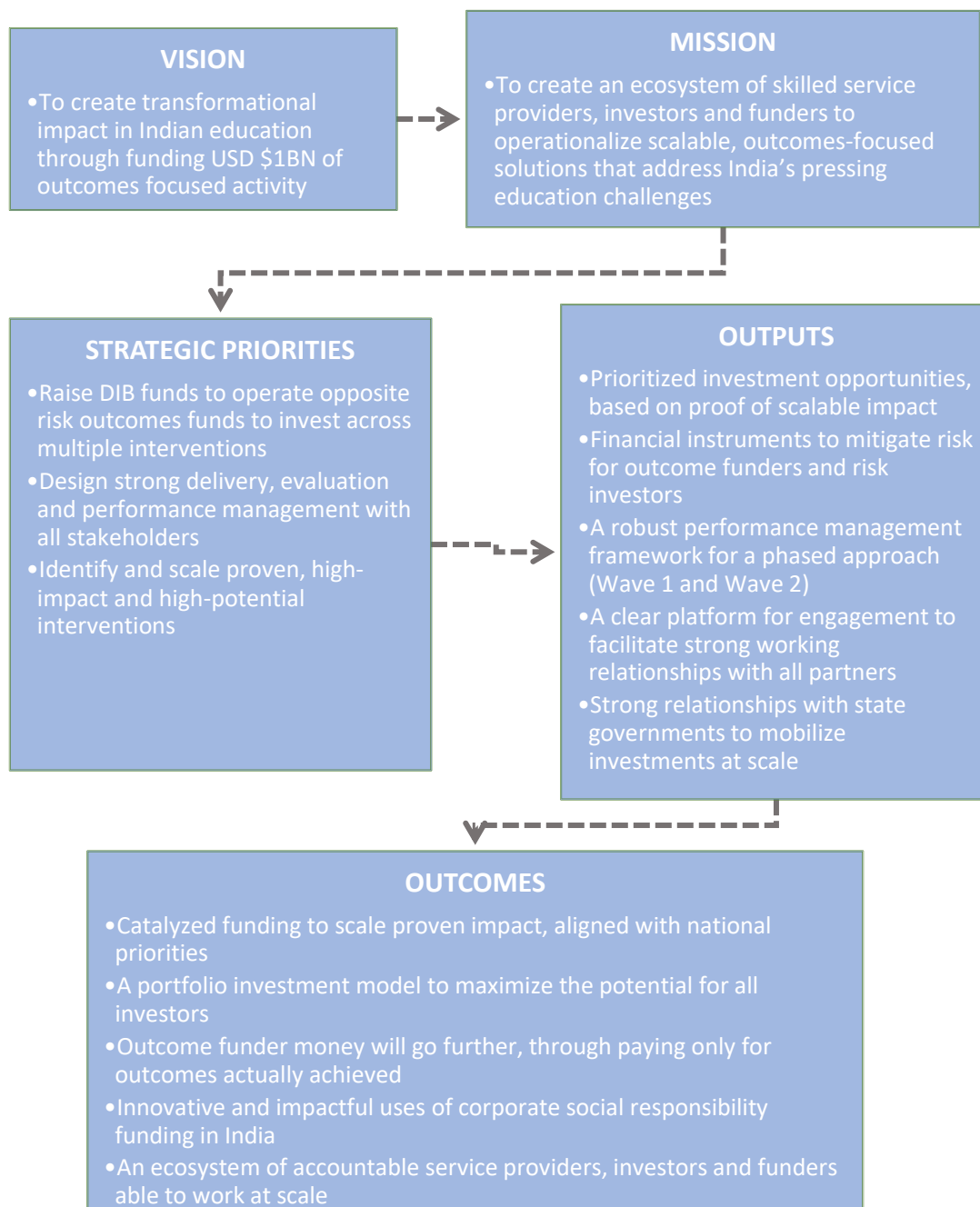


Figure 3: IEOF Theory of Change¹⁵

¹⁵ Social Finance India, India Education Outcomes Fund, and GSG (2019). India Education Outcomes Fund Prospectus 2019. (p. 46).

Key Actors, Roles and Linkages

The bringing together of various stakeholders assumes a central place in IEOF approach. Figure 4 shows the various actors involved in the SF-IND and IEOF and their roles and interlinkages.

Board of Directors - The Board of Directors was constituted at the very beginning and provides overall leadership and direction to the SF-IND. The Board brings together long-standing experience and credibility in social finance, business, entrepreneurship, institution building and the development sector.

Knowledge Partners - The knowledge partners provide advice and guidance on impact investing, education sector and the legal system. They have offered pro bono support to SF-IND on various tasks during the initial period.

Donors - The Tata Trusts is the main donor to SF-IND. It is providing funds for developing the ecosystem and supporting establishment costs of SF-IND and also costs of putting together the constructs.

SF-IND-IEOF Team - The core team of SF-IND-IEOF consists of four members, including the lead. This team manages all responsibilities associated with setting up the IEOF platform and is responsible for liaising with all stakeholders.

Steering Committee - A Steering Committee has been set up to provide oversight and guidance on the impact bonds. This consists of key stakeholders. Performance management reports to the Steering Committee on the progress of the Funds.

Risk Investors - The IEOF has contracted Kaizen Private Equity to raise funds on the risk investment side. In addition, IEOF can also contract other entities, including foundations, to cover the risks of investments made as performance guarantors.

Outcome Payers - The outcome payers could be CSRs, foundations and donors. The long-term goal is to have government as an outcome payer.

Service Providers - The service providers are organizations that have been identified by IEOF through landscaping analysis and due diligence. The service providers could be working on any of the five thrust areas of the IEOF. They could be nongovernment organizations or social enterprises.

Third Party Evaluators - A third-party evaluators are selected through a process of competitive selection.

Beneficiaries - The ultimate beneficiaries are the children, youth, teachers, teacher educators, communities and others who will benefit directly from the program interventions.

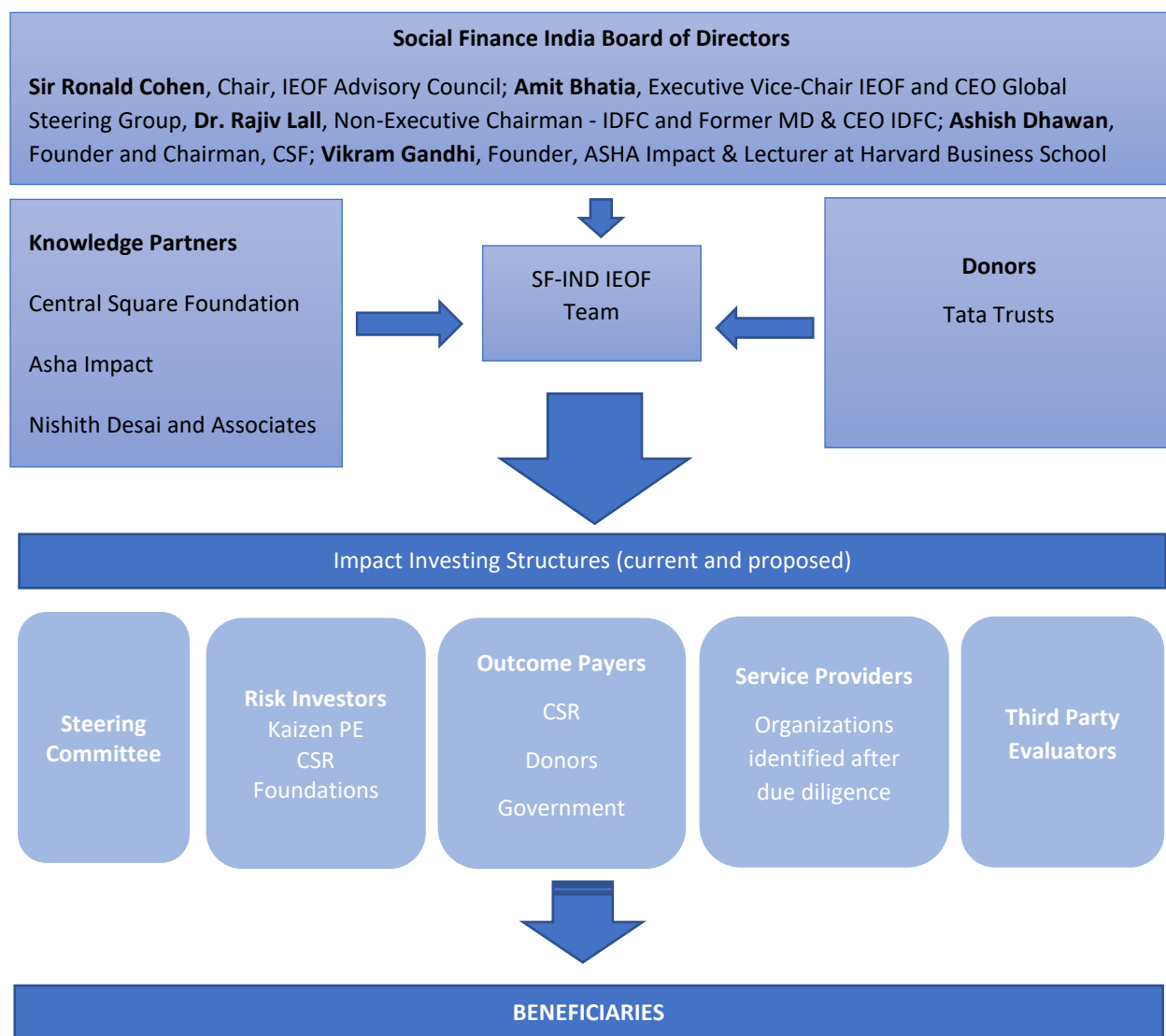


Figure 4: Key stakeholders of SF-IND-IEOF¹⁶

Approach

Keeping in mind the Sustainable Development Goals, the IEOF has identified five thrust areas on which innovative financing mechanisms will be developed. They are:

1. Early Childhood Education
2. Foundational Learning Skills
3. Secondary Learning
4. School to Workforce transition

¹⁶ Based on interview with Lead, SF-IND-IEOF and Social Finance India, India Education Outcomes Fund, and GSG (2019). India Education Outcomes Fund Prospectus 2019. (p. 27, 30 & 44)

5. Inclusive education (learning and intellectual disabilities).

Work on these thrust areas is being done through a phased manner. Currently, the focus of the interventions is improving quality of education in government schools. In order to help achieve impact at scale, the phased approach is planned over the course of ten years aligned with the SDG deadline and involves three phases. The objectives and focus of each of the three phases is given in the table below.

Table 1: Phased approach to achieving impact at scale

Phase	Objectives and Focus
4 years – Build up phase (2020-2024)	<ul style="list-style-type: none">• Demonstrate how the IEOF constructs deliver better outcomes• Bring in the element of measurability into the sector• Make the constructs work with all the entities involved, including service providers, outcome payers and risk investors• Create enough evidence for an “outcomes rate card” and come out with an approach of pricing outcomes that can also interest the government• Work with philanthropies, foundations, corporates as investors or outcome payers• Target INR 150-200 crores (USD 2-2.6 million) commitment per year
3 years – Ramp up phase (2024-2027)	<ul style="list-style-type: none">• Reach out to wider and deeper - across corporate community, number of states• Target INR 300-350 crores (USD 3.9 – 4.5 million) commitment per year
3 years – Consolidation phase (2027-2030)	Involve government, with a couple of impact bonds where government is an outcome payer

Currently, the IEOF has chosen to start its first impact bond in the area of foundational learning skills in Haryana. Although the public announcement will be made in 2020, some of the design considerations are presented later in this case study. Overall, the IEOF has currently:

- ✓ Developed and convened all partners to launch the first-in-the-world innovative structure with their first pilot impact bond
- ✓ Developed a strategy to deploy outcomes funds over a ten-year period
- ✓ Conducted thorough due diligence to evaluate 150+ service providers
- ✓ Consulted with industry experts to validate the approach
- ✓ Secured commitments for risk capital
- ✓ Evaluated multiple forms of funding engagement for risk and outcome funders

In the following sections, we will take a closer look at the process of creating the ecosystem and understand the various design components that go into laying the foundation.

Process of creating the ecosystem

Setting up IEOF as a marketplace for innovative financing in India has involved preparations of over eighteen months. During this time, various design components have been put in place, ideas tested and challenges identified. The process has involved:

- Ensuring **supply of high-quality interventions**
 - Service provider landscape analysis
 - Due diligence
 - Determining what are DIB-able interventions
- Securing **investments and pricing outcomes**

- Risk capital
- Pricing outcomes and rate card approach
- Payment metrics
- Designing **Financing mechanisms**
 - Pooled DIBs
 - Social Impact Incentives
 - Social Success Notes
- Formulating **Contracting structures**
 - Role of intermediary
- Planning for **Monitoring, Evaluation and Capacity Building**
 - Performance management
 - Independent Evaluation
 - Capacity Building

Let us take a closer look at each of these components and the issues being addressed.

Supply of high-quality interventions

Even though India has numerous organizations and social enterprises working in the education sector, identification of high-quality interventions and service providers that can absorb innovative funding and deliver impact at scale is a crucial task. Using the work of Cooley and Ved (2012) on scaling organizations,¹⁷ the IEOF has developed a thorough process of evaluation of the service providers which involves three stages as shown in Figure 5. At first, IEOF conducted a **service provider landscape analysis** which entailed secondary research of organizations working in a particular thrust area, interviews with donors, impact investors and philanthropists to check the extent of endorsement and financial support for a given organization, and screening the list of service providers with experts from the sector. This landscape analysis covered over 150 organizations. Based on the list of organizations validated through the landscape analysis, around 80 organizations were identified for due diligence. The second and third stages involved **due diligence**. This included checking the legal and governance standing, finances, ability to deliver and measure impact, risk management and details related to the program (see Annexure 1 for a broad framework guiding assessment of organizations). After this, 38 organizations were selected for primary research to evaluate existing program data, field operations, feedback from existing donors and capability to scale. The main objective of the due diligence process is to identify service providers that:

- Are aligned with the objectives of the fund
- Have strong leadership and governance capabilities
- Have one or more programs that have demonstrated positive results and can be scaled
- Have the capability to expand delivery that working at scale entails
- Have an absorptive capacity for a capital influx

There is a recognition that an impact bond mechanism is not appropriate for all education interventions.¹⁸ The IEOF uses a **‘decision tree’ to determine what interventions are DIB-able** (see Figure 6). The criteria on which the decision tree is based are:

- identification of a specific target group and outcomes
- identification of interventions that can achieve the outcome
- consistency of achieving the outcomes

¹⁷ Cooley, L. and Ved, R. (2012). *Scaling Up – From Vision to Large-Scale Change: A Management Framework for Practitioners*. Washington D.C.: Management Systems International.

¹⁸ Interview with Lead, SF-IND-IEOF and Education Lead, Tata Trusts.

- potential to achieve value for money and/or potential of achieving outcomes if payment is conditional to achievement of outcomes

The 'decision tree' also helps to identify what kind of financing mechanism (an impact bond or others like social impact incentives or social success note) would work based on who is assuming the risk and who is paying for outcomes. It also provides a pathway for those who do not meet the criteria to explore alternatives.

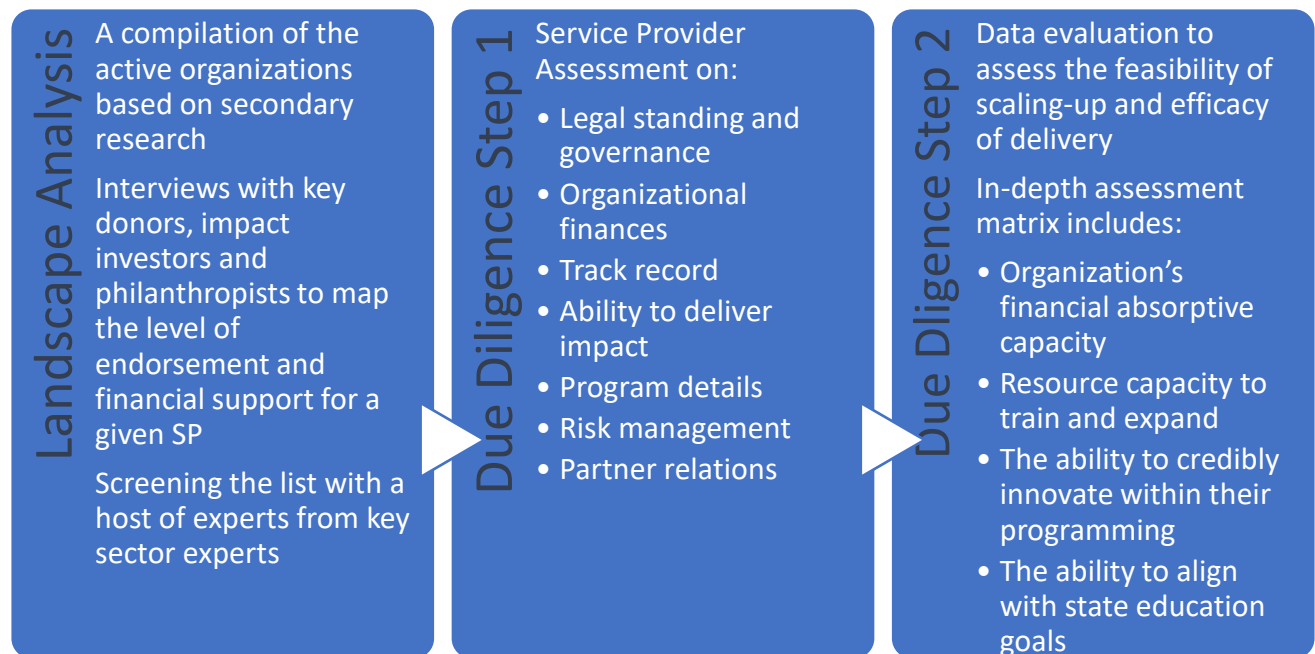


Figure 5: Process of due diligence¹⁹

¹⁹ Social Finance India, India Education Outcomes Fund, and GSG (2019). India Education Outcomes Fund Prospectus 2019. (p. 63).

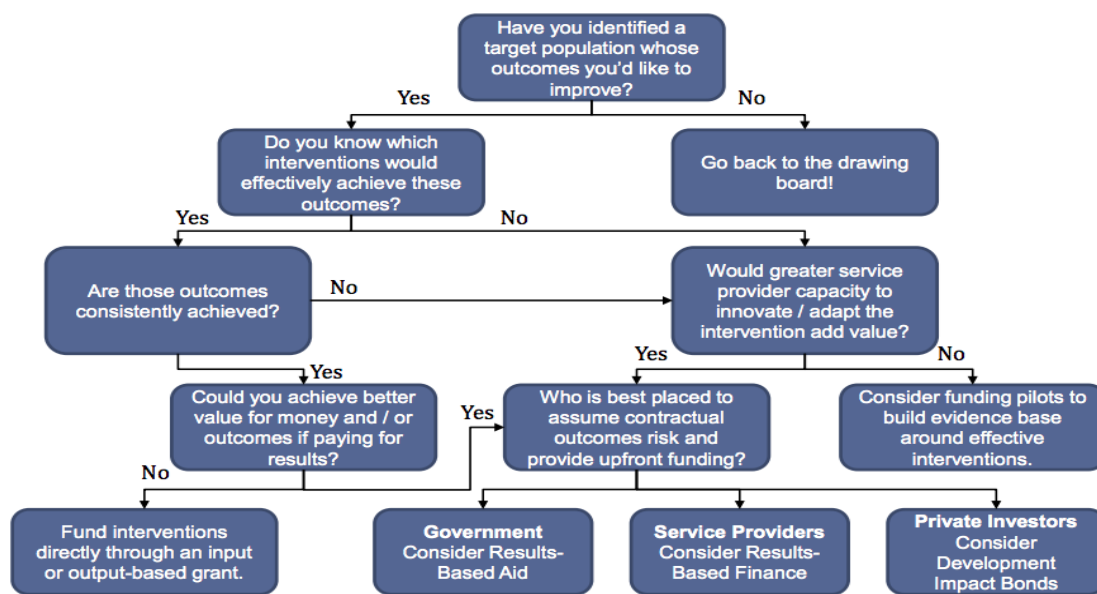


Figure 6: Decision Tree – determining what is DIB-able²⁰

Securing investment and pricing outcomes

At the initial stage, SF-IND deliberated on how **risk capital** could be mobilized. The options being considered were as follows: first, SF-IND directly undertakes setting up of the Fund which will do the risk investing portion; second, SF-IND goes out to potential individual risk investors on a case-by-case basis; and third, SF-IND does not get involved in this and gets another entity to handle the risk investments. The SF-IND selected the third option of working with an entity with an experience of fund raising and fund deployment in the education sector. They chose to work with Kaizen Private Equity, which already had two Education Sector Funds and was setting up another debt impact fund²¹ focused on education. Kaizen expressed their desire to commit a certain proportion of the Kaizen Edu Finance Fund (KEF) raised to IEOF constructs as the risk investors. The KEF is a blended financial instrument which takes commercial capital and impact capital into the fund and is currently used for giving loans to affordable private schools. Philanthropic agencies are also partnering with Kaizen and funding performance-linked rewards in schools.

SF-IND kept this engagement with Kaizen Private Equity on the risk side as ‘non-exclusive’, which means that on a case by case basis, if SF-IND found other investors that were excited about some opportunities, SF-IND would reserve the option of working with the other investors.²² From the perspective of Kaizen, the IEOF is a subset of the Edu Finance Fund which is a 150 million dollar fund with a 50 million green shoe option.²³ The target is to have the funds ready in 2020 so whenever IEOF puts forth a construct that requires investment, Kaizen is ready with funds.²⁴ According to the respondents from Kaizen and SFI-IND, currently, the risk investors are more likely to be foundations, philanthropies that do not mind taking the risks that they would have taken in any case, and would be happy if their funds get stretched further. The risk investors can, however, also be private capital interested in

²⁰ Social Finance India, “Development Impact Bond Decision Tree.” Unpublished.

²¹ The impact investment providing debt funds to private educational enterprises.

²² Interview with Lead, SF-IND-IEOF.

²³ A ‘green shoe option’ allows for over-allotment of shares than initially planned by the issuer in case the demand is higher than expected.

²⁴ Interview with Partner, Kaizen Private Equity.

both social as well as financial returns. As the respondent from Kaizen pointed out, the commercial investors are not interested in dealing with the government but are more likely to invest in an instrument of the IEOF where the outcome payer is still a private entity and hence there is an assurance of getting safe returns.²⁵

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Currently, the regulations do not allow Corporate Social Responsibility funds to be invested in risk funds and they are more likely to come as outcome payers than as risk investors because they are required to spend money within the financial year and receiving returns would amount to not having spent the money at all. It should also be noted that by clubbing the process of raising risk capital with the KEF, the IEOF has attempted to keep the cost of raising risk capital low. Otherwise, if IEOF were to do it on their own, the cost of raising risk capital would have been disproportionate to the amount raised for funding education interventions.²⁶ However, investors are interested in seeing a definite pipeline of projects since they do not want their capital to sit idle.

In addition to securing investments, another key part of the process of establishing the outcome fund structure and building the marketplace is determining how outcomes will get priced. The pricing of outcomes requires data about the outcomes and reliable evidence on what it takes to produce those outcomes, which is currently lacking. Therefore, IEOF sees the process of pricing outcomes happening in two waves as depicted in Figure 7. The first wave is intended to build outcome investment ecosystem and the second wave will launch standardized outcome rate cards. In Wave 1, existing proven programs will be facilitated to scale using impact bonds, will get evaluated and set a benchmark for success that will help determine price per outcome. In Wave 2, IEOF will operate a more developed fund, putting greater emphasis on the competitive cost of an outcome, wherein service providers will bid on specific outcomes through a rate card approach.²⁷

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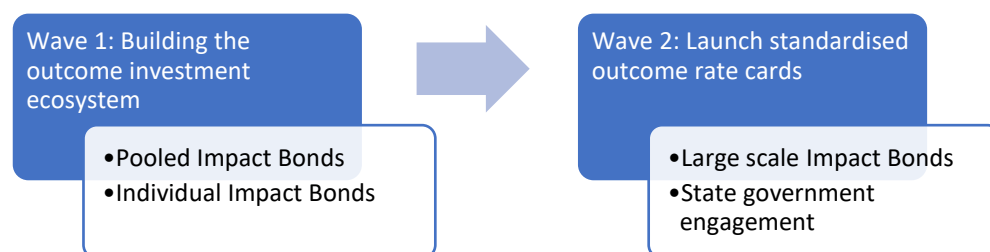


Figure 7: Building the market for impact bonds at scale²⁸

Developing a rate card requires outcomes to be priced in a way that they are valid and fair and there are several challenges involved (see Figure 8). The first round of impact bonds would help to address the current gaps in data and would also help in establishing parameters for reasonable and fair pricing. This would factor in differences in the cost and efficacies of programs delivered across geographies and the varying complexities imposed.

Determining risks and pricing them is another challenge and this includes factors in the external environment that can affect the implementation of programs viz. political scenario, changes in policy and agenda of the government, natural conditions and so on. In addition, the prevailing practices and mindset in the development sector focuses

²⁵ Interview with Partner, Kaizen Private Equity.

²⁶ Interview with Partner, Kaizen, Private Equity.

²⁷ Social Finance India, India Education Outcomes Fund, and GSG (2019). India Education Outcomes Fund Prospectus 2019. (p. 21).

²⁸ Social Finance India, India Education Outcomes Fund, and GSG (2019). India Education Outcomes Fund Prospectus 2019. (p. 21).

on costing the inputs rendered rather than the outcomes that will be produced. This requires a paradigm shift in the way that makes stakeholders view the costs of producing outcomes.

The IEOF approach to pricing outcomes involves ensuring that the service providers are rewarded fairly and sustainably so that the costs, risks and uncertainty in pricing are factored in. The thumb rule in this regard is that wherever the targeted results have been achieved, “risk of over-paying will be favored over the risk of under-paying.”²⁹ The IEOF plans to create incentives for improving program efficiency and securing success. Over time, this will also help improve value for money by creating competition to improve program delivery and achieve scale.

To summarize, the IEOF approach towards pricing outcomes is based on two key concepts that are central to the IEOF fund design approach.³⁰ They are:

1. **Rate card for outcomes:** After the IEOF administers multiple impact bonds, it would have adequate experience, evidence and data to be able to develop a standardized pricing mechanism in the form of a “rate card” which will specify a standard “price per outcome”. This will help in bringing down costs of determining what the outcomes would cost every single time a procurement is instituted.

2. **Market for outcomes:** once the pricing of outcomes is standardized and there is transparency across the service providers, risk investors and most importantly the outcome payer which could be the government, it would be easier to bid for outcomes and raise capital.

However, there is a concern that the cost calculated for producing a particular outcome may not take into account the ground work put in by the service provider in terms of reaching out to government officials, community mobilization, rapport-building, and so on. These efforts that lay the ground and create conditions for success may not be calculated when pricing outcomes.³¹ As a result, the cost of producing an outcome may be more than what is indicated on a rate card.

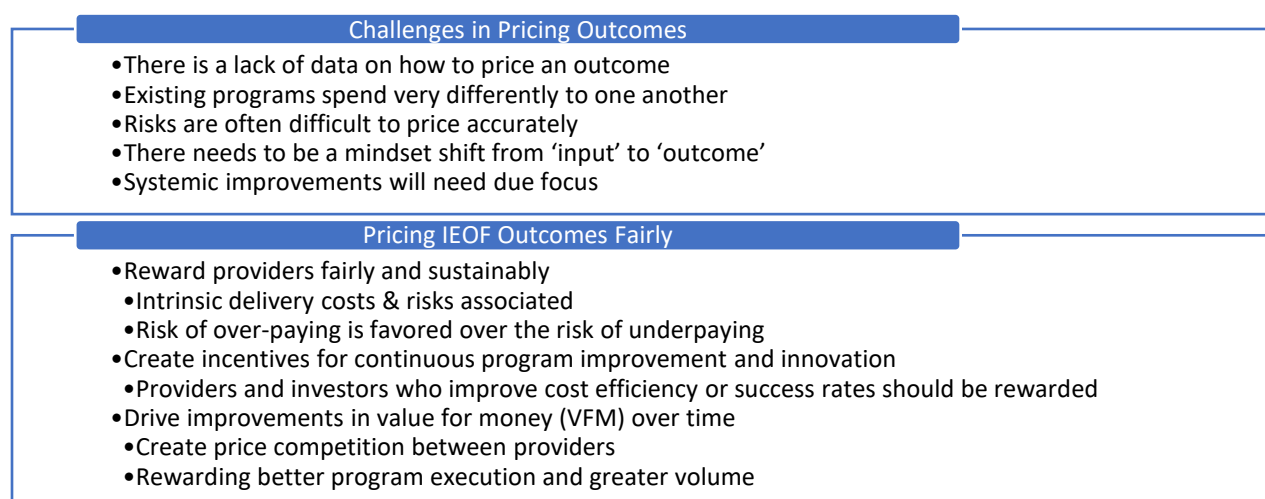


Figure 8: Pricing Outcomes: Challenges and IEOF Strategy³²

²⁹ Social Finance India, India Education Outcomes Fund, and GSG (2019). India Education Outcomes Fund Prospectus 2019. (p. 79).

³⁰ Social Finance India, India Education Outcomes Fund, and GSG (2019). India Education Outcomes Fund Prospectus 2019. (p. 53).

³¹ Interview with a Service Provider.

³² Based on information available in Social Finance India, India Education Outcomes Fund, and GSG (2019). India Education Outcomes Fund Prospectus 2019. (p. 67 and 79-80).

Another key component of setting up the ecosystem is defining the **payment metrics** which are aligned with the objectives of the program and helps to establish the payment mechanism for the achievement of outcomes. The SF-IND does not want the outcomes fund to compete with commercial investment sector for the risk investors with the expectation of 15-20% returns. According to the IEOF Lead, the objective is to have the returns more muted and aligned with social returns and keep the costs of contracting, legal fees, performance management and program assessments less than 10-15%. This will make sure that the structure itself does not become very expensive. This also builds on the lessons learned from the Educate Girls DIB in Rajasthan which was recognized as being “expensive relative to the cost of the program” and which acknowledged “opportunities to streamline” the costs.³³ One of the recommendations from the process evaluation of Educate Girls DIB was “to reduce transaction costs, future DIBs should look to replicate common frameworks and leverage contract templates” given that the “transaction and administrative costs and the time and effort commitments made during DIB design and implementation are viewed to be disproportionately high.”³⁴ IOEF is therefore trying to reduce the time it takes to structure the impact bonds to 4-5 months which is very ambitious compared to the time taken to structure impact bonds in other contexts. These measures will bring down the costs and thereby improve returns on investments for the investors.

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Specifically, in terms of payments to investors on the achievement of outcomes, selection of payment metrics is an important component of the structure that requires alignment of all stakeholders. The guiding principles being used by IEOF for determining what results would qualify for payments to the investors getting triggered are shown in Figure 9. The guiding principles seek to address concerns with regards to the clarity and ownership of the metrics, balancing measurement of outcomes with a few outputs, rewarding gains based on improvement with an equity angle, using standardized metrics for comparability and striving to measure outcomes that go beyond the metrics of literacy and numeracy.

Guiding Principles in selection of payment metrics	
Use a simple basket of metrics to drive the right behaviors	<ul style="list-style-type: none"> ✓ Simple and understood by providers and investors ✓ Needs to incentivize a broad range of objectives
Majority of payment for outcome metrics, with some for outputs	<ul style="list-style-type: none"> ✓ Transfer risks and incentives to providers and investors ✓ Output metrics will be minimum ✓ Inputs, if required, will be outside the main contractual framework
Reward all learning gains, using a ‘distance traveled’ approach	<ul style="list-style-type: none"> ✓ Payment would be a direct function of total improvement attributable to the intervention ✓ Will also have additional equity incentive ✓ Binary and threshold approaches will not be used
Use comparable and standardized metrics where possible	<ul style="list-style-type: none"> ✓ For example, Learning Adjusted Years of Schooling (LAYS), developed by the World Bank is a metric that could be used
Measure (and pay for) a broad range of what matters in a child’s development	<ul style="list-style-type: none"> ✓ Capture breadth of learning beyond academic skills ✓ Research would be done on developing suitable metrics to measure the socio-emotional skills, IT skills, citizenship skills, and other 21st century skills.

³³ IDinsight (2018). Education Girls Development Impact Bond. Final Evaluation Report. 10 June 2018. (p. 11) https://static1.squarespace.com/static/5b7cc54eec4eb7d25f7af2be/t/5b8f0cbb575d1fff85e7397c/1536101613230/Project+Report_28th+August_Revised.pdf

³⁴ UBS Optimus Foundation (2018). World’s first Development Impact Bond in education: Process evaluation from the Educate Girls Development Impact Bond. (p. 19). https://www.dalberg.com/system/files/2018-10/Dalberg%20report_EG.pdf

Figure 9: Guiding Principles in selection of payment metrics

Financial Mechanisms

Structuring an appropriate mechanism that responds to the current requirements and motivations of different stakeholders within the regulatory mandates has been an interesting, yet a challenging piece of the entire process. At present, one of the key mechanisms that the IEOF intends to put in place for channeling the investments is the mechanism of **pooled DIBs**. This also allows the IEOF to align its products with the maturity and readiness of the education sector. The absorptive capacity of the service providers currently poses a challenge. In the education sector in India, there are not many service providers who can take in significant amounts of money and utilize it for delivering their programs. The pooled DIB, wherein multiple service providers working on the same issue are brought together make up a reasonable size, is a mechanism that IEOF has designed to address this challenge of low absorptive capacity among the service providers. For example, as IEOF Lead points out, many entities have the capacity to absorb INR 10 crores (USD 1.3 million) per year but may not have the capacity to take in INR 20 crores (USD 2.6 million) in a year. Hence, the pooled funds are expected to be a specific size of around INR 100 crores (USD 13 million) so that three service providers over three years can each utilize around INR 10 crores (USD 1.3 million) per year.

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Pooled funds would be created around service providers working in the same sub-area within the broader intervention thrust areas. For example, under the broader intervention area of early childhood education, if there are four service providers working on the sub-area of teacher training, and if there are 4-5 CSR or foundations who are willing to give funds, a pool can be created around them. Each pool is expected to be USD 10-15 million pool. This mechanism would allow IEOF to match the current levels of maturity of the sector and use a step-ladder kind of approach which allows the stakeholders to grow. The scale that is envisioned in the pooled structures would bring multiple service providers together to work in a manner that their complementarities are leveraged or the adjacencies of their interventions (either geographical or functional) are put to work together. However, creating pools and bringing entities together that share the goals and have complementarities is a challenge.³⁵

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“Although the primary focus of IEOF is to establish the impact bond market and ecosystem within the education system in India, the fund may explore alternate pay-for-success models in the initial stages.”³⁶ The illustrative structures of social impact incentives and social success notes being considered are shown in Figure 10.

³⁵ Interview with Lead-SF-IND and IEOF.

³⁶ Social Finance India, India Education Outcomes Fund, and GSG (2019). India Education Outcomes Fund Prospectus 2019. (p. 81).

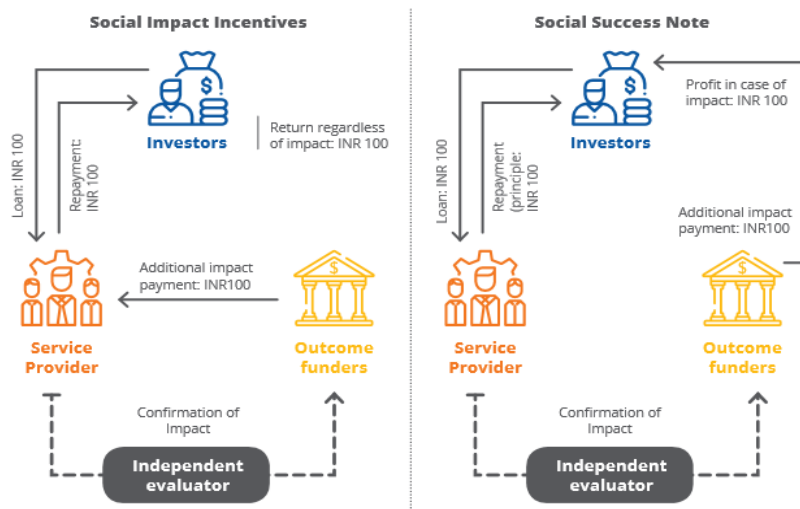


Figure 10: Social Impact Incentives and Social Success Notes³⁷

In a **social impact incentive mechanism**, the investor will provide a loan to the service provider. After the independent evaluator assesses and confirms achievement of the intended outcomes, the service provider would repay the loan to the investor and the outcome funders would provide an additional incentive or an impact payment to the service provider. Even in the event that the outcomes are not achieved, the service provider would return the loan amount to the investor. The mechanism of **social success note** is slightly different. The investor loans an amount to the service provider who returns the loan to the investors at the end of the program. The outcome funder would make an additional impact payment to the investors as a profit in case of impact. Whatever the mechanism considered, the IEOF plans to prioritize targeted outcomes and evaluate the risks assigned to risk investor and service providers on a case-by-case basis.

Given that the main focus of Wave 1 is to create an evidence base of what works and at what cost, the IEOF is currently preparing to launch a **pilot DIB** in Haryana to improve early language literacy in government schools. It adopts a unique structure and leverages CSR funding which is available on annual basis and which legally cannot attract returns. The process of constructing the DIB has involved working within the confines of the legal framework governing CSR funding, the requirements of the key stakeholders, while trying to achieve all the benefits which accrue from pay for success/outcomes-based approaches. The structure of the pilot DIB is therefore unconventional, as reflected in the steps involved (see Figure 11).

³⁷ Extracted from Social Finance India, India Education Outcomes Fund, and GSG (2019). India Education Outcomes Fund Prospectus 2019. (p. 81).

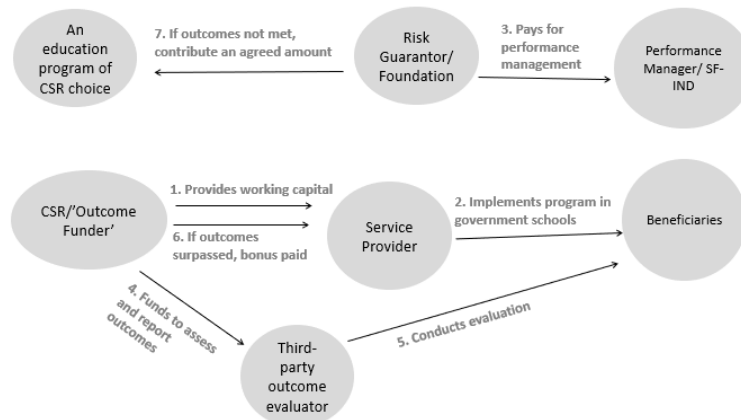


Figure 11: Unconventional structure of the pilot DIB

As mentioned earlier, the mandatory CSR in India generates funds annually that the IEOF can use for innovative financing and for making the existing funds go further. However, the CSR funds cannot be used for risk investment since Indian regulations prohibit corporates from receiving returns on their funding. However, the CSR can come as outcome funders. In the case of the pilot DIB structure, the IEOF has inverted the paradigm. The ‘outcome funders,’ in this case the CSR of a private corporation, will give working capital upfront to a service provider, a nonprofit organization, to implement their early language literacy program in government schools. There is a risk guarantor, instead of a risk investor as seen in typical DIBs, who guarantees that the outcomes would be met. This risk guarantor is a grant-making foundation which has earlier funded the service provider and is reasonably confident that the intervention will produce the outcomes. In order to ensure that the risk of failure is further reduced, the risk guarantor will support SFI-IND to play the role of a performance manager. The CSR/‘outcome funder’ will support third-party evaluation. If the outcomes are surpassed, the CSR will give an unrestricted incentive bonus to the service provider. If the outcomes are not achieved, the risk guarantor would contribute an agreed amount to an education program suggested by the CSR/‘outcome funder’ because, as mentioned earlier, the CSR cannot receive any returns from the risk guarantor on the funds it has invested.

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According to the IEOF, a structure like this does not exist and it is first of its kind. A large part of the process of setting up the ecosystem is to actually come up with innovative ways of structuring the mechanisms that will have takers among the risk investors, outcome funders and service providers. There is no repository of different kinds of structures that can be floated, hence these are created in-house. Although the purists may not call this structure an impact bond, but it does everything that an impact bond does and shares characteristics of a traditional DIB, which is focus on outcomes, put a certain penalty for underachievement of outcomes, and a certain incentive for overachievement after a third-party conducts an assessment. In this inverted structure, the risk of program failure is shifted to a risk guarantor, who has to pay back only if outcomes are not achieved. There is also full focus on regular program/performance management to ensure that everybody is aligned towards delivering the outcomes.³⁸ This may usher a new way of designing DIBs where the philanthropists or foundations provide initial seed grant to nonprofit organizations and social enterprises to experiment and once they are confident about the ability of the programs to deliver outcomes or scale up, they could come in as risk guarantors. This would release their funds for supporting other fledgling and innovative programs. The available CSR funds can be invested in programs that are focused on achieving outcomes and will therefore bring efficiency and effectiveness in CSR funding. Thus, the structure is envisaged to see many programs getting innovated and scaled up wherein early

³⁸ Interview with Lead, SF-IND-IEOF

stage grantors becoming guarantors of programs and new funds are brought in to pay for scaling, thereby having a multiplier effect. Most importantly, this structure also complies with the current regulatory framework because both the CSR/’outcome funder’ and the risk guarantor are bodies that cannot receive returns on investments made.

Monitoring, Evaluation and Capacity Building

In order to build the capacity of the service providers to deliver results and ensure that the program is progressing as intended, an important function that IEOF will take on is that of **performance management**. This will entail building dashboards for monitoring key performance indicators and collection of data and generate data-driven insights into the performance of the program and the fund. The performance manager will also visit the field, review challenges, assess the progress on the ground first-hand and provide strategic support to the service provider, wherever required (see Figure 11). Based on this, the performance manager will report to the Steering Committee constituted for the specific mechanism on the progress, and mid-course corrections suggested. The SF-IND will provide a performance management team consisting of a Senior staff/Director, Manager and an Analyst with a total capacity of 70-100% total full-time equivalent assigned to performance management. The role of performance management is crucial because it is meant to reduce the risk of failure and facilitate achievement of outcomes. The specific responsibilities of the performance manager with regards to the stakeholders are outlined in Annexure 2.




		
Data Dashboard Define key performance indicators Build data dashboards for collection and evaluation of data Provide data driven insights on the Service Providers and fund performance	Field Visit Conduct regular field visits to closely monitor on-ground operations and solicit feedback from beneficiaries Provide strategic support to service providers	Reporting Periodic reporting to Steering Committee on performance updates Challenges in operations Proposed innovations and mid-course correction

Figure 11: Performance Management Component³⁹

Evaluation is key to any pay-for-success mechanism given that it determines if the outcomes have been achieved and the basis for triggering payments to investors. However, in India, there is a dearth of agencies with the required expertise. Those with financial and evaluation expertise may not necessarily be competent to measure education outcomes. Furthermore, some of the service providers may not be open to subject themselves to evaluation and their reluctance could stem from various reasons, ranging from the fact that they already get third-party assessments done or they do self-evaluation. Availability of data on whether the intervention has led to the outcomes is a critical issue. For triggering payments based on outcomes, it is important that attribution is significant and clearly demonstrated. This can be a challenge because organizations may not want to subject themselves to rigorous Randomized Control Trials (RCTs) kind of evaluations.⁴⁰

IEOF is partnering with leading third-party evaluators, selected through a bidding and empaneling process, to conduct a rigorous evaluation of outcomes. IEOF also intends focusing on driving standardization so as to benefit from economies of scale. Consistent processes and data collection systems will be used across the whole IEOF

³⁹ Social Finance India, India Education Outcomes Fund, and GSG (2019). India Education Outcomes Fund Prospectus 2019. (p. 96).

⁴⁰ Interview with Lead, SF-IND-IEOF

portfolio of programs, as well as consistent metrics within each stage of the education life cycle, in order to meet the imperative for high quality, low cost evaluations. Evaluation costs will be targeted at 5% of contract value and get capped at 10%.⁴¹ The high costs associated with outcome testing is a matter of concern and although over the years this would come down, the possibility of using existing assessment measures like the National Achievement Survey or the School Education Quality Index to measure the outcomes of impact bonds is being explored.⁴²

A significant part of developing a marketplace for innovative financing of education is to develop the **capacities of the service providers**. This becomes important because the nature of financing mechanism is different from the traditional grant-giving mechanism that most service providers are familiar with. Moreover, the documentation, monitoring and evaluation requirements are far more robust than what service providers may have implemented while availing traditional grants. Therefore, IEOF has been putting capacity building expenses upfront in the grant agreements and emphasizing it in the conversations with outcome payers. For example, in the case of the pilot DIB in Haryana, in the scenario of overachievement of outcomes, there will be an incentive in the form of unrestricted funding by the CSR which is the outcome payer. This will incentivize over-achievement by the service provider. As an illustration, if it is a program costing INR 15 crores (USD 2 million) over 3 years, 20% (INR 3 crores or USD 400,000) could be given as unrestricted grants on the overachievement of outcomes, which is a significant amount for a lot of entities. In addition, IEOF is also ensuring that funds for capacity building are factored in the program budget.⁴³

Perspectives on Engaging Key Actors

The process of identification and selection of the stakeholders has been a key part of the initial work. The landscape analysis of service providers helped IEOF to understand the work is happening in the education sector, understanding their funding requirements, the programs that were on top of their heap, and also their capacity building requirements. SF-IND is involved in reviewing the **service providers** and identifying the programs that have demonstrated certain success at some level and can be scaled up or a combination of 2-3 programs to deliver even a higher or bigger outcome.⁴⁴ There is a firm belief that impact bonds are neither for all organizations nor is it for all the programs.⁴⁵ The service providers have been the most excited among all the stakeholders because if funds are committed for 3-4 years, it frees them to work towards their mission in a focused manner.⁴⁶ However, there is a reputation risk for the service provider in the sense that the effectiveness of its program is being tested and failure to deliver outcomes may get seen unfavorably by the stakeholders as well as the government which is providing its schools to deliver the program.⁴⁷

When **Tata Trusts** came in with the initial support of setting up SF-IND in order to explore and create an impact investment ecosystem in India, it brought in decades of its experience, network and understanding of the sector. For one of the biggest philanthropic bodies in India, this is only one small part of their overall grant portfolio but the engagement has changed the way it is looking at their other projects from an outcomes-focused lens. The transformation of the development sector in the form of greater accountability, focus on outcomes and flexibility to innovate are the main reasons why the Tata Trusts is supporting the SF-IND in setting up the IEOF. There are specific outcomes that the Tata Trusts expects from the SF-IND. The expectation is that SF-IND would create the

⁴¹ Interview with Lead, SF-IND-IEOF

⁴² Interview with Education Lead, Tata Trusts.

⁴³ Interview with Lead, SF-IND-IEOF

⁴⁴ Interview with Lead, SF-IND-IEOF.

⁴⁵ Interview with Lead, SF-IND-IEOF and Education Lead, Tata Trusts.

⁴⁶ Interview with Lead, SF-IND-IEOF and Education Lead, Tata Trusts.

⁴⁷ Interview with Education Lead, Tata Trusts.

reputation in the sector to raise funds from private sector and eventually from the government. The SF-IND has targets on ability to raise fund, their sustainability plan, and other parameters of building the ecosystem.⁴⁸

The **CSRs** are an important part of the IEOF imagination. The IEOF has identified the states where they believe they should be initially focusing and it is predominantly linked to where the CSR monies are going right now. It is adopting more of top-down approach for leveraging CSR funds, which means that instead of starting with regions which require funding the most, the IEOF is identifying regions where the money is deployed now and converting that general CSR grant commitment into an outcomes-focused commitment.⁴⁹ It is expected that this would snowball and create more interest in CSR investment in innovative financing for education.

In an impact bond structure, there is an interesting dynamic between the **risk investors** and the **outcome payers**. The risk investors would say ‘we need to prove this as an instrument. So, let us not keep very stringent targets. Let success be shown’. But it is important to outcome payers to start pushing back saying ‘no’, if you showcase that every DIB is a success, then outcome payers will start becoming suspicious. While it is easier to mobilize risk investments, finding outcome payers is more challenging because it would entail payment of returns to investors which all entities may not be able to commit to. Currently the outcome payers are either the foundations and philanthropies or the CSR funding. However, the ultimate goal of SF-IND a scenario where the government comes in as an outcome payer. From the IEOF point of view, the target is to create a scenario where 5% of government budget becomes outcomes-based over the next 2-3 years and raise it to 20% by 2030.⁵⁰ Although the SF-IND has started engaging with **the government**, the government is not involved but “is watching”.⁵¹ There are some officials who are interested and there are those who see this as making profit from the social sector and do not want to have investment bankers coming in. Some think that the presence of Tata Trusts brings a sense of comfort and increases credibility.⁵² There is a firm belief that until 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 philanthropies, then the scale will remain very limited.⁵³

However, there are various challenges to government involvement at present. Firstly, the government procurement is a very different process. Secondly, the government could also have concerns about the quality of service providers selected because it has its own process and criteria to work with nongovernmental organizations. Additionally, the government itself is involved as a service provider in education, given that education is a core sector. If the government has to be involved, it would entail reallocating the budgets in a particular manner and being open to certain kind of scrutiny. Lastly, the government may have issues with the assessment methodologies being used because it is a commentary on its schools. This is likely to be more difficult in areas of early childhood education and primary education where the indicators and assessments are more complex.⁵⁴

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Challenges, Concerns and Lessons

During the first year of its work, the SF-IND and its stakeholders have been confronted with teething issues, have had some preliminary concerns and have confronted some challenges. This section summarizes some of them and presents them in no particular order of significance.

⁴⁸ Interview with Education Lead, Tata Trusts.

⁴⁹ Interview with Lead, SF-IND-IEOF.

⁵⁰ Interview with Lead, SF-IND-IEOF.

⁵¹ Interview with Education Lead, Tata Trusts.

⁵² Interview with Education Lead, Tata Trusts.

⁵³ Interview with Lead, SF-IND-IEOF and Education Lead, Tata Trusts.

⁵⁴ Interview with Lead, SF-IND-IEOF.

Organization-related

1. Given the unique blend of human resource requirements, getting the right kind of people to work on IEOF as the work expands is a big challenge. People from finance sector need to be sensitized to the social sector and vice versa. There is a learning curve for those coming from the finance sector because the efficiencies they expect in the finance world do not exist in the social or the development sector. In fact, the mandate for the finance professionals is to bring in those efficiencies into the development sector. There can be a culture shock for those who are coming in from the finance industry. The entire articulation and language are different and it takes time for mutual learning to occur. There is a paucity of those with expertise in financial structuring, who can raise funds and market the concept.⁵⁵
2. Almost all the work that is done at the IEOF is new and there is no one who has the experience of having done it before. There is no template or a repository from where structures can be borrowed. Therefore, an IEOF kind of a platform requires those who are capable of ideating and also those who are ready to work hands-on and get into the details.⁵⁶
3. There was an initial delay in starting the DIB due to initial teething troubles. There was an early inertia and aligning all the different stakeholders was a challenge. One of the lessons learned is that it is a continuous teaching process, and a process of selling a new concept. It is also a top down process and the key decision makers or key decision influencers need to get excited and convinced first before working with other stakeholders.⁵⁷
4. There is also a realization that institutionally, there needs to be a greater emphasis on grit and in making sure all stakeholders persist and make it work till the end. One cannot let go of organizations saying that they are not performing so can drop out of the construct. One of the lessons is how tightly contracts are written and what are the clauses that will ensure that all parties are at it till the end. It is necessary to not make it easy to drop things and see things through. It is also necessary to make sure that the aspects of the finance world that allow one to get out of the losses quickly do not drive the social sector. This is important because the moment things are dropped half-way, the government is likely to become more reluctant to adopt such structures at scale. The government cannot afford to drop things and get out of underperforming districts. Hence, contracts need to have tighter controls over bail-outs.⁵⁸

Instrument-related

1. The impact bond as an instrument is not an appropriate answer for all educational challenges. Many times, deep and significant work may be done by smaller or niche focused NGOs because they have grassroot connections. Sometimes they are not capable of absorbing the kind of funding that an impact bond seeks to bring or have outcomes which can be measured without a huge expense being incurred. There is also a problem of measurability since not all outcomes are easily measurable and hence there is a concern if impact investing will fund and take up only those programs that aim to achieve measurable outcomes. That may leave out programs that are worth pursuing but which cannot be easily measured or quantified with the existing tools.⁵⁹ This may lead to segmentation of the sector itself, where certain challenges are “DIB-able,” and certain organizations are “DIB-able.”⁶⁰
2. Between supporting experimentation and proven initiatives, there is a challenge to search for that sweet spot which balances the two. The question which needs to be assessed on a case-by-case basis is how much risk is

⁵⁵ Interview with Lead, SF-IND-IEOF and Education Lead, Tata Trusts.

⁵⁶ Interview with Lead, SF-IND-IEOF.

⁵⁷ Interview with Lead, SF-IND-IEOF.

⁵⁸ Interview with Education Lead, Tata Trusts.

⁵⁹ Interview with Education Lead, Tata Trusts.

⁶⁰ Interview with Education Lead, Tata Trusts.

acceptable to the parties involved. Currently, one of the concerns is that a proven model will start getting replicated in this form and the impact bonds will be used to scale up programs that have demonstrated proof of concept. However, if the program is too risky then impact investor will not put funds and if it is too well known as an idea that works, the outcome funder will not see the need for a risk investor and may directly fund the organization. That dynamic is very important to understand and maintain.⁶¹ However, scaling up also involves risks and innovation and would require risk investments. One of the key challenges for the IEOF is to be seen as a neutral agency with the credibility to help determine that the outcomes that are being aimed at are at the right level.⁶²

3. There is a strong criticism that the idea of tapping into nonconventional funding is not occurring because it is the same philanthropic funding that is getting tapped and channelized into impact bonds. The key is to be able to get the government to fund the outcomes and tapping into the private risk capital. The actual risk investors will be companies who have the dual bottom line- not just financial but also social bottom line. When the philanthropic organizations serve as risk investors in the impact bond structure, they offer a “nuanced charity” because they can keep reinvesting the funds to get multiple outcomes with the same funding. They are able to provide the up-front funding for programs that have some risk of not achieving all the promised outcomes and would therefore not receive funding from conventional funders. On the other hand, it saves government funds that may have been invested in programs that may not yield the promised outcomes. Some may not see this a financial innovation or an instrument at all as it does not bring additional funding into the education sector. However, these innovations aim to improve efficiency and produce outcomes, and therefore make the existing funding for education go further.

4. The legal, tax and regulatory norms in India impose a number of restrictions on philanthropies, foundations, CSRs trying to engage with the new ecosystem. There are restrictions on who can invest, who can reap returns, how monies can be invested as well as restrictions on repatriation of returns to offshore investors. Since the marketplace is envisioned to unlock new capital, it has to straddle between the commercial imperatives and social imperatives and balance the regulatory norms applicable to financial sector as well as to the charities. Since the IEOF is currently leveraging CSR funds for its pilot DIB, the regulatory hurdles that impinge the designing process include corporations not being able to commit the exact amount that they can allocate in say Year 3, because they cannot predict what their profits would be in Year 3, or corporations not being able to invest and receive payouts.⁶³

5. The cost of setting up the ecosystem and its claimed efficiencies are issues that deserve further study. The argument of efficiency, in contrast with bespoke transactions, will apply only when there is scale and a number of pooled funds or other mechanisms in operation that share the administrative and transaction costs, thereby creating efficiency. At present, the question of what constitutes scale and a scale large enough to result in efficiencies is ambiguous. In other words, there is lack of clarity about what is the tipping point at which scale of the ecosystem starts showing gains of efficiency. Because until that tipping point is reached, the costs of setting up IEOF and its financial mechanisms, the process of raising capital, time and efforts spent on coordinating multiple stakeholders are likely to be more expensive than what it would have taken to design one-off bespoke deals. While achieving scale is imperative to bring efficiency gains, what must also be noted is that factors such as readiness of the sector, pipeline of DIB-able programs, regulatory norms, and availability of investors and outcome payers create serious impediments to scaling.

6. Planning for sustainability of the IEOF platform is also a challenge. Currently, the IEOF has received three years of funding from the Tata Trusts to create the marketplace. Once that is achieved SFI-IND and IEOF would act as an

⁶¹ Interview with Education Lead, Tata Trusts.

⁶² Interview with Lead, SF-IND-IEOF.

⁶³ Interview with Risk Guarantor of pilot DIB.

intermediary in the ecosystem. Given that these are early years, the business model for funding the intermediary is not tested yet. If costs of an intermediary are to be borne by all parties involved, it would make it an expensive structure. However, as SFI-IND Lead pointed out, experience shows that intermediaries generally take up performance management roles because it is a role that is integral to the mechanisms. The role of an intermediary is more defined in the private equity world and borrowed from there. However, it has not been tried in the social finance space in India.

Conclusion

India, with its size, complexity and challenges of the education sector, requires additional resources in order to achieve Sustainable Development Goals. Innovative financing is still a new concept and the costs of structuring one-off Development Impact Bonds are well-documented. The IEOF, as an innovative financing platform aimed at catalyzing outcome-focused funding structures at scale, makes an interesting case. It is focused on creating an ecosystem and has brought together an initial set of stakeholders that will work on high-impact interventions. Its target of raising USD 1billion of outcomes-focused activity by 2030 is ambitious and tapping new sources of funding will remain a challenge. Its ability to create pooled funds among organizations working on a common area, design new structures that comply with regulatory standards, and demonstrate an efficient and effective model for its own sustainability would be worth studying in future.

Annexure

Annexure 1 Broad framework for assessment of organizations

Broad area	Parameters
Organizational Details	Focus areas
Organizational Standing	Registrations, approvals, certifications from various regulatory and tax authorities and documentation on compliance.
Leadership	Structure, vision and mission, theory of change and alignment with the IEOF structure
Organizational Structure	Staff, partners, capacities, roles, workplans, diversity
Policies and Processes	Internal policies on human resources, decision-making, expenditures and accounting, assets, procurements, audits,
Operations	Information systems, government relations, ability to create impact, current programs, risk management, fund raising,
Monitoring and Evaluation	Practices, results, reporting methodology,
Scalability and Sustainability	Resource intensity, constraints to growth, donor base, cost comparability

Annexure 2 Responsibilities of Performance Management towards Stakeholders

Stakeholder	Responsibility
Risk investor & Outcome Funder	Centralized monitoring: Performance managers will supervise all stakeholder partnerships to drive continuous improvement, establish clear key performance indicators, conduct performance management reviews and report to the Steering Committee
Risk investor and service provider	Managing and responding to risk: Performance managers will help service delivery partners identify and address implementation risks and challenges while giving investors valuable insight into operational realities
Risk investor	Enabling investors to become leaders in innovative finance: Considering that impact bonds are a recent development, performance managers will support investors navigating their role in the program. Additionally, they can help investors build capability for future deals
Risk investor and service provider	Supporting adaptive management: Performance managers have to understand the factors influencing the results of the program and help implementation partners adjust it, if need be
Impact community	Generating lessons learned: Learnings generated from on-ground engagements must be captured and shared with the impact community to magnify the social return from the program
Analysis of the data to provide final results	Standard practices, uniform reporting templates are used to understand data and draw insights from it