CENTRE FOR INNOVATIVE
FINANCE AND SOCIAL IMPACT

SUMMARY OF ROUND TABLE DISCUSSIONS ON

Investing in Social Change: The Role of Innovation Finance in Driving Positive Impact

Round table I: Unlocking private capital for social impact: Innovative financing models for non-profit organisations

Context

This round table sought to understand the perspectives of different stakeholders, identify the challenges they face, gain insights into key enablers, implications on supply and demand sides of the innovative finance landscape, and serve as a platform for sharing diverse opinions. Senior representatives from funding organisations, ecosystem organisations, non-profit organisations, and regulatory agencies participated in this round table, ensuring a comprehensive representation of the innovative finance ecosystem.

Moderators

Abhinav Bhatia, MSDF | Kartikeya Desai, D&A

Participants

Aayushi Chaurasia, D&A | Abha Thorat, British Asian Trust | Agrima, Kantar Public | Alifya Loharchalwala, Gray Matters Capital | Amit Garg, KOIS | Anurag Gangwar, ImpactVerse | Anushree Parekh, British Asian Trust | Apoorva Kamat, Quest Alliance | Arun Nalavadi, Magic Bus India | Dhir Jhingran, LLF | Garv, Mobile Creches | Gayatri Suri, UBS Optimus Foundation | Hanisha Vaswani, Majority Fund | Jyotsna Sitling, Advisory Committee Member, Social Stock Exchange | Vivek Roy, Jharkhand CSO Forum | Nidhi Bhasin, NASSCOM | Priya Naik, Samhita Social Ventures | Sana, LLF | Shiv Uppal, Samhita Social Ventures | Yasmin Riaz, Save the Children | Ranjna Khanna, Impact Investors Council

What is Innovative Finance?

Innovative finance includes innovative lending instruments and models that enhance demand and supply of finance for the social sector, making them more accessible, in compliance with the current regulatory framework.

How do we bring more capital into the private sector?

The participants at the table addressed this fundamental question in two parts.

A. Drivers that affect the supply of finance:

- **Customer centricity**: Providers of finance and innovations in finance should prioritise the needs of the customer i.e., the recipients of finance, and actively align with their specific requirements and preferences. This will ensure that individuals and organisations in the social sector, who are excluded from accessing capital, can obtain necessary funds for their specific requirements.

- **Innovative finance as a shared good**: The Indian social sector faces a challenge in attracting private funders and market players owing to its complexity and stringent regulations. Creating successful innovative finance models and structures as shared resources which be used by all stakeholders will fill knowledge gaps in understanding the value of each of these structures, build consensus on use of appropriate innovative finance instruments, and reduce the costs associated with structuring such instruments, making them more accessible.
- **Donor education**: Information asymmetries result in donors not having credible information on structuring instruments within the regulatory framework. They also lack visibility into the specific utilisation of funds, or credibility of implementing partners. A robust donor education initiative will encourage their greater participation by fostering awareness, promoting informed investing strategies, and providing essential tools for decision-making, enabling them to make informed choices and engage effectively with the social sector.
- **Leveraging different forms of capital**: Different sources of funds, such as philanthropy, CSR, public funds etc., need different outcomes to ensure social impact. These funding sources often operate independently and lack the ability to leverage other forms of available capital. There is a pressing need for the strategic integration of different funding streams to utilise different forms of capital. This will enable the donor ecosystem to harness the collective potential to achieve greater outcomes and drive positive change.
- **Availability of pooling vehicle:** Today, the options for pooling capital are limited to organisational or intermediary levels, creating a challenge for donors who must first identify an appropriate pooling organisation before initiating transactions. This increases costs and adds complexity to the process. To address this, it is crucial to establish institutionalised pooling vehicles that can facilitate blending of different forms of capital. Such dedicated platforms will streamline the pooling process, reduce transactional barriers, and provide more cost-effective mechanisms for mobilising capital across sources.
- **Impact and attribution**: The meaning of the word 'impact' is ambiguous, and the concept is often used interchangeably with other words like 'output', 'outcome', 'evaluation', 'theory of change' etc. Additionally, when different forms of capital are pooled together in a single instrument, there is a challenge in attributing success/ impact to each form of capital. It is vital to arrive at a common language and mechanism around impact that is simple, intelligible to all stakeholders, and allows for attribution to different forms of capital in blended instruments.
- **Data platform for transparency**: Technology has the potential to enhance transparency in innovative finance transactions. By establishing a common data platform, stakeholders can efficiently pool and share information regarding involved parties, beneficiaries of interventions, and funding costs. This data-driven approach promotes transparency, accountability, and addresses the information needs of the ecosystem. Additionally, technology can effectively manage and

analyse performance data related to financing instruments, allowing for informed decision-making and continuous monitoring of outcomes.

B. Drivers that affect the demand for finance in the social sector

- **Absorptive capacity**: To enable social sector organisations effectively access innovative financing, especially the smaller NGOs that remain excluded from the ambit of innovative finance, their absorptive capacities need to be enhanced. Absorptive capacity refers to their ability to effectively utilise and manage the substantial amount of capital received while operating at scale.
- **Challenges of costs and capacity**: Non-profits face a challenge related to costs and capacity, creating a self-perpetuating cycle that hinders their ability to attract innovative finance. Insufficient absorptive capacity limits their ability to embrace innovative financing opportunities. The lack of adequate funding, in turn, leads to organisations struggling to establish sophisticated processes and employ qualified professionals capable of navigating complex financing instruments that would increase their absorptive capacity. Getting ready for innovative finance is expensive for the non-profit sector owing to capacity-building costs, streamlining internal structures and processes to comply with new instruments, measure outcomes and impact, reporting, talent management etc. Minimising the financial burden associated with this transition and providing comprehensive capacity-building support is, therefore, crucial.
- **Mindset shift:** Processes in the non-profit sector today are more input driven than outcome driven. The use of innovative financing instruments requires a transformation from input-driven processes to verified outcome-driven processes, requiring a mindset shift. This entails a focus on building organisational resilience and strengthening processes that result in measurable and validated outcomes.
- **Talent management**: Implementing innovative finance instruments efficiently and achieving the desired results need talent management practices to evolve in tandem with the requirements of organisations. These practices need to evolve at the managerial level as well as at the grassroots level.
- **Blueprint for replication and collaborative learning:** Innovative financing structures are complex, and it is difficult to understand the value they bring to project implementation. Creating blueprints of existing instruments and standardising processes for replication, by sharing best practices and lessons learned will help address this issue. This will foster a more inclusive and collaborative environment, enabling stakeholders to navigate innovative financing with greater confidence and effectiveness.
- **Use of technology**: Innovative financing instruments need performance management, accountability, and transparency in using funds. Technology can provide valuable insights, enable better management of project interventions, promote transparency, and facilitate evidence-based decision-making throughout the project lifecycle, thus bolstering trust among stakeholders.

Round table II: The path to measuring social impact: Exploring best practices and challenges

Context

The objective of this round table was to bring together diverse stakeholders, examine the existing practices, approaches, and mechanisms for understanding and measuring impact in the social sector, gain insights, consider their perspectives, foster collaboration, and drive consensus on enhancing impact measurement practices for greater effectiveness and transparency within the social sector. The roundtable consisted of representatives from funding organisations, implementers, grassroots organisations, and ecosystem support organisations.

Moderators

Aparna Dua, Asha Impact | Gaurav Shah, ISDM

Participants

Ashita, LLF | Bhavya Goswami, Save the Children | Chandrika Bahadur, Antara Foundation | Dibyendu, Pradan | Dr. Kaustuv Bandopadhyay, PRIA | Himanshu Arora, Kantar Public | Poonam Choksi, ATECF | Shachi Sharma, CAF India | Shaveta Sharma Kukreja, Central Square Foundation | Subhendu, CRY | Sumitra Mishra, Mobile Creches | Nandalal Bakshi, Jharkhand CSO forum | Amitava Ghosh, Jharkhand CSO Forum

What is Social Impact Assessment?

As per the IAIA, Social Impact Assessment includes processes of analysing, monitoring, and managing the intended and unintended social consequences, both positive and negative, of planned interventions (policies, programs, plans, projects) and any social change processes invoked by those interventions. Its primary purpose is to create a more sustainable and equitable biophysical and human environment.

Can and should the parameters of social impact be standardised?

The participants addressed this overarching question through the following aspects:

A. **Present trends and gaps:**
   - **Funder-centric assessment patterns:** Impact assessment metrics and mechanisms in non-profits are built around the funder's preferences, helping them make informed funding decisions. They are mostly activity (output/ outcome) driven rather than impact driven. The donor ecosystem is focused on short-term funding

as opposed to the long-term innovative funding required to create impact-level changes.

- **Evidence-informed programs:** The intrinsic nature, purpose and metrics for impact assessment are mostly internal facing, focused towards building the credibility of organisations, informing programs, guiding policy influencing and advocacy strategies, and enabling course correction if required. It allows organisations to generate evidence on the efficiency of models that can then be scaled up through replication. These indicators, though well-defined, do not align with system-level indicators, that are proxies for social impacts.
- **Resource intensive**: Impact assessment needs monetary resources and puts an additional burden of data collection and data reporting on the frontline workers.

B. Feasibility of standardisation for innovative financing:

- **Standardised definition and attribution of impact:** There is a lack of common understanding of 'Impact'/ 'Outcomes'/ 'Outputs' among various stakeholders. However, due to the complexity of the sector, the possibility of standardising a framework for impact remains low. It is also difficult to attribute change at the community level to specific interventions, which often leaves scope for underreporting or overreporting. Stakeholders must agree on a framework that will help evolve a shared understanding for measuring impact.
- **People-centric impact reporting:** With an excessive focus on data and efficiency, the community voice, which is at the centre of the program, is often missed. Impact measurement strategy and frameworks need to be designed in a way that captures the community voices, and metrics should be designed in a manner that capture insights at the individual, family, and ecological levels.
- **Defining standards and principles**: As impact is created over a longer duration, there is a need for moving away from tight programmatic funding to more flexible funding, with a stronger focus on impact. There is a need to create standards for transparency, credibility and accountability guided by common principles of understanding impact and educate donors and implementers subsequently.

CIFSI takeaways

- **Role of a convener:** The ecosystem needs a convener to standardise a common understanding and framework for donors and non-profits and help create a common language for impact.
- **Donor education:** There is a need for a catalyst to bring realism to donor expectations by unpacking the landscape of non-profits and the common challenges faced during impact measurement.
- **Capacity building and education:** A common understanding around the shared interests of the communities, implementing organisation and the funder, needs to be built. This capacity building is required both at the managerial and grassroots level. Small organisations need capacity-building support so that they are able to access innovative finance and are not excluded from the ecosystem.
- **Knowledge creation**: The ecosystem needs a facilitating organisation that can support research and knowledge creation on the design of instruments to work within the existing regulatory frameworks to absorb different forms of capital.
- **Shared learnings and incubation support:** There is a need for a learning platform for students, alumni and emerging NGO leaders where they can access incubation support, including funding to develop their blended finance proposals.

List of abbreviations

ATECF	ATE Chandra Foundation
CAF	Charities Aid Foundation
CRY	Child Rights and You
CSO	Civil Society Organisation
D&A	Desai & Associates
IAIA	International Association for Impact Assessment
IIIC	India Impact investors Council
ISDM	Indian School of Development Management
LLF	Language and Learning Foundation
MSDF	Michael & Susan Dell Foundation
NASSCOM	National Association of Software and Service Companies
NGOs	Non-Government Organisations
PRIA	Participatory Research in Asia

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This report documents the discussions and insights gained from a round table organised by ISDM's Centre for Innovative Finance and Social Impact (CIFSI) to understand perspectives of various stakeholders with regard to challenges, opportunities and potential for the Innovative Finance landscape. The discussions reflected inputs from the demand and supply perspectives and yielded clear objectives for the ecosystem to pursue as well as those actionables that enablers within this domain need to work on.

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