



DECEMBER, 2023



# ***Innovative Finance Made Simple: A Primer for Innovative Financing Instruments in India***

***Indian School of Development Management, supported by Citi India's CSR efforts, launched the Centre for Innovative Finance and Social Impact (CIFSI) to mainstream innovative finance for social impact.***

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## List of Abbreviations

▶ AgTech	-----◊	Agricultural Technology
▶ CIFS	-----◊	Centre for Innovative Finance and Social Impact
▶ CIIE	-----◊	Centre for Innovation, Incubation & Entrepreneurship
▶ COVID	-----◊	Coronavirus Disease
▶ CSR	-----◊	Corporate Social Responsibility
▶ DFIs	-----◊	Development Finance Institutions
▶ DIBs	-----◊	Development Impact Bonds
▶ FLDG	-----◊	First Loss Default Guarantees
▶ ISDM	-----◊	Indian School of Development Management
▶ IT	-----◊	Income Tax
▶ JOY	-----◊	Job Opportunities and You
▶ KII	-----◊	Key Informant Interview
▶ M&E	-----◊	Monitoring and Evaluation
▶ MEL	-----◊	Monitoring, Evaluation, And Learning
▶ MOSEC	-----◊	Multi-originator Securitisation
▶ NCD	-----◊	Non-Convertible Debenture
▶ NGO	-----◊	Non-Governmental Organisation
▶ NPO	-----◊	Non-Profit Organisation
▶ PCG	-----◊	Partial Credit Guarantees
▶ PERSEC	-----◊	Persistent Securitization
▶ PVT LTD	-----◊	Private Limited Company
▶ RBI	-----◊	Reserve Bank of India
▶ RGs	-----◊	Returnable Grants
▶ RoI	-----◊	Return on Investment
▶ SAMRIDH	-----◊	Sustainable Access to Markets and Resources for Innovative Delivery of Healthcare
▶ SDGs	-----◊	Sustainable Development Goals
▶ SEBI	-----◊	Securities and Exchange Board of India
▶ SIBs	-----◊	Social Impact Bonds
▶ SIINC	-----◊	Social Impact Incentives
▶ SSE	-----◊	Social Stock Exchange
▶ SSNs	-----◊	Social Success Notes
▶ SPOs	-----◊	Social Purpose Organisations
▶ USAID	-----◊	The United States Agency for International Development
▶ USDFC	-----◊	U.S. International Development Finance Corporation

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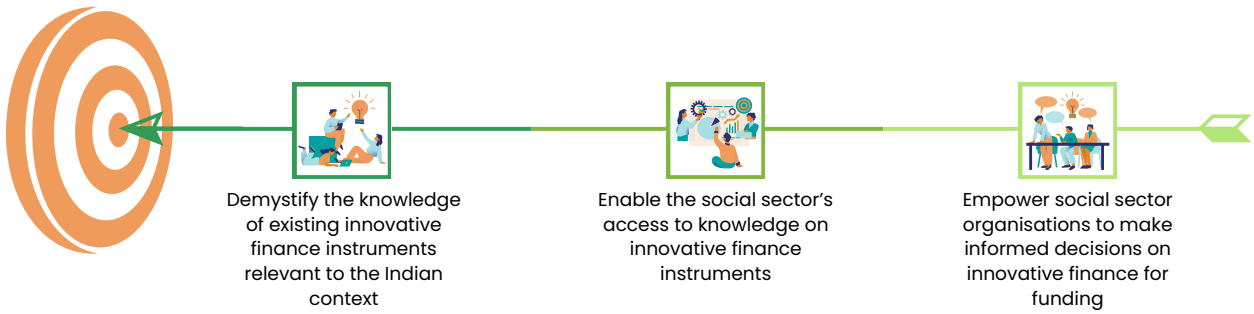




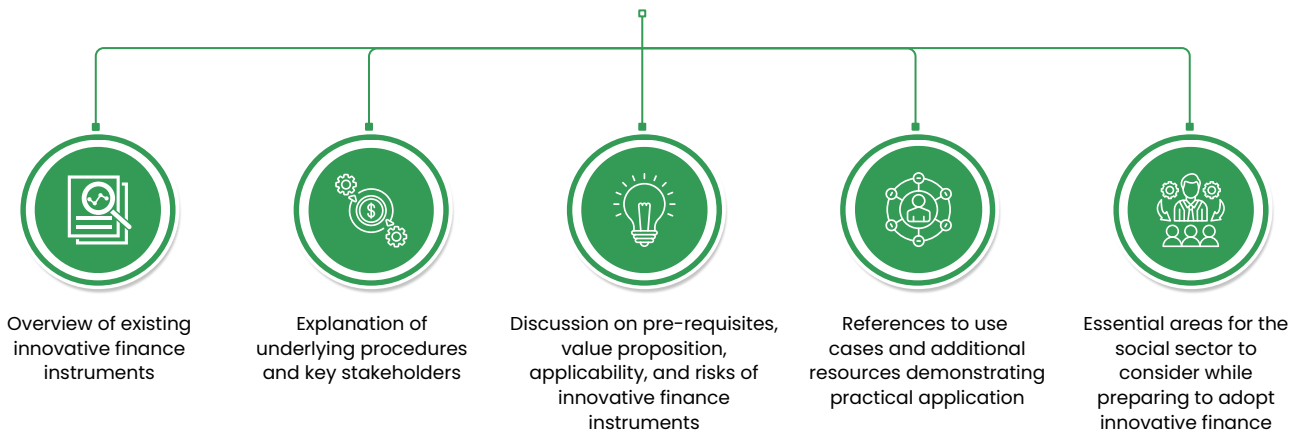
# About The Primer

Figure 1: Overview of the Primer

## 1.1. Objectives of the Primer



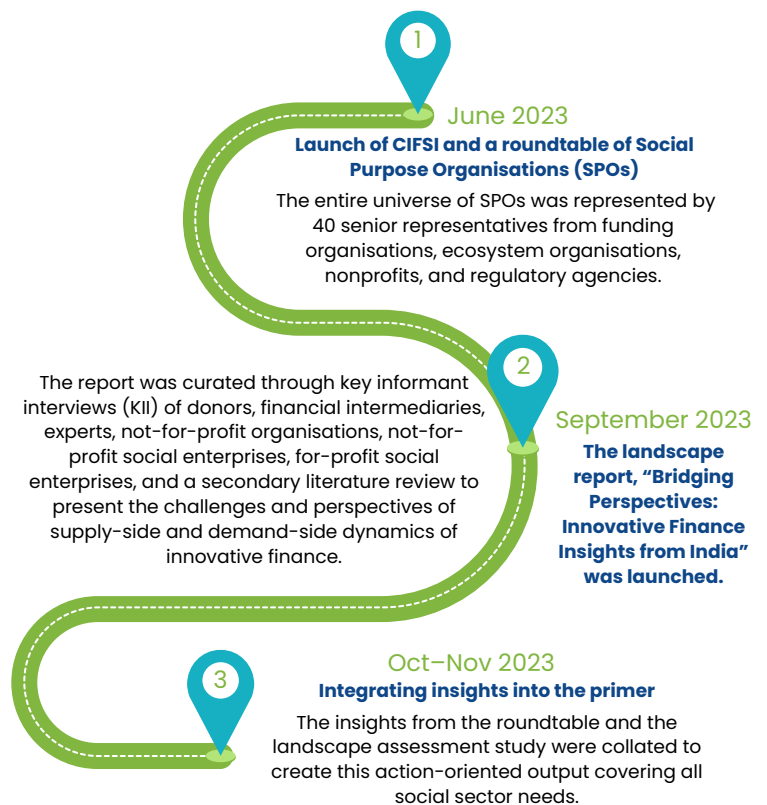
## 1.2. What Does the Primer Include?



## 1.3. Who can use This Primer?



## 1.4. How has This Primer Been Curated?





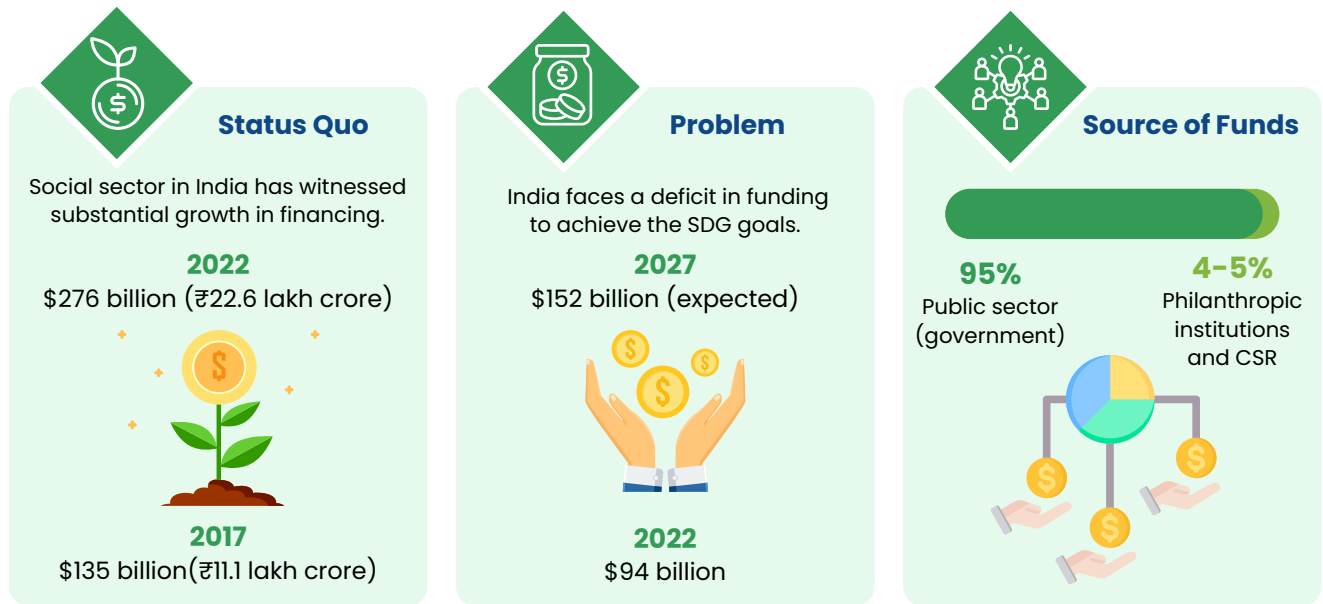


# Understanding Innovative Finance

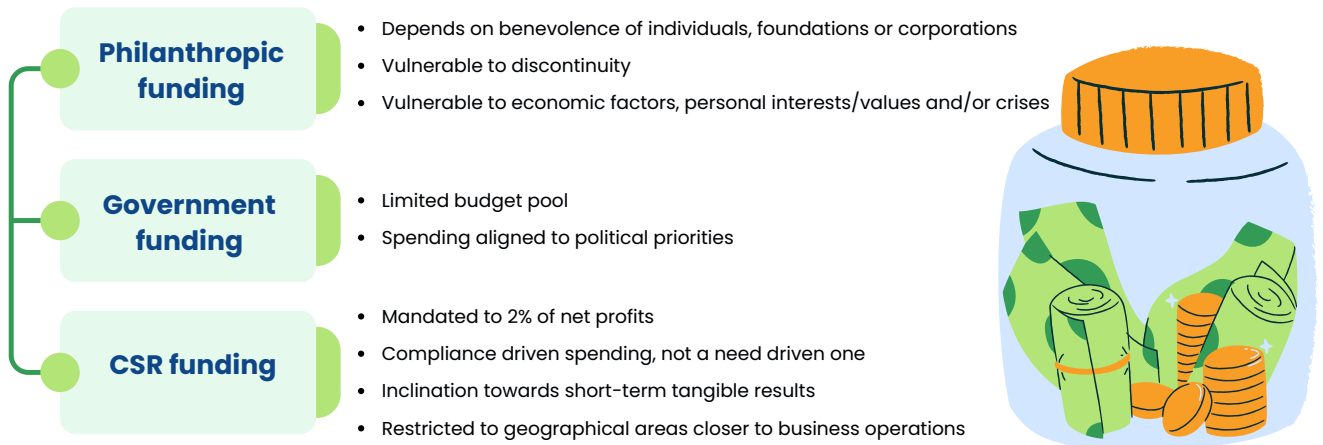
Figure 2: Understanding Innovative Finance

## 2.1. Need for Innovative Finance\*

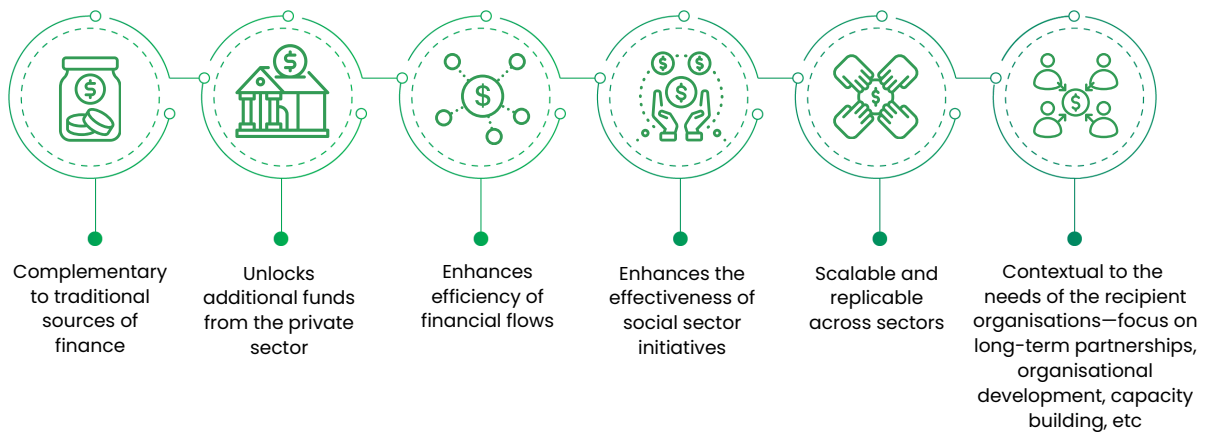
### Funding Deficit in India for SDGs



### Constraints of Traditional Funding



## 2.2. What does Innovative Finance Entail?#



\*source: [Dasra and Bain \(2023\)](#)

#source: [ISDM \(2023\)](#)



## 2.3. Who are the Recipients of Innovative Finance?

A defining feature for organisations in the social sector to be considered as recipients of funds is their commitment to make a positive social return through their work. The social return also includes environmental return. While the recipient of innovative finance may or may not be profit-making, its primary objective should be to create a positive social impact. Accordingly, the recipients of innovative finance, based on the functionality of their work, include the following:

### Non-Governmental Organisations (NGOs)

Organisations set up solely to achieve social objectives with no revenue-generating activities.

Traditionally, these organisations rely on donations and grants for their organisational activities and project interventions.



### Social Enterprises

Includes both not-for-profits and for-profits which are dedicated to a social cause and simultaneously generate revenue by selling goods and/or services.

Includes section 8 companies (not-for-profit social enterprises) or other companies but with a clearly stated social and environmental mandate.



# 3

## Innovative Finance Instruments: An Overview

Figure 3: Overview Innovative Finance Instruments

### 3.1. Understanding Terminologies

Instruments, structures, and models are all interconnected concepts within the ambit of innovative finance. However, they have distinct nuances that differentiate them from one another, as given below.



#### Innovative Finance Instruments

Specific financial mechanisms for funding social initiatives including impact bonds, impact guarantees, and partial credit guarantees.



#### Innovative Finance Models

Conceptual frameworks that guide the structuring of a certain instrument and its subsequent implementation.



#### Innovative Finance Structures

Arrangements for implementing financial instruments encompassing legal, contractual and operational frameworks that enable fund flow, risk management, and stakeholder participation.

### 3.2. Categorisation of Innovative Finance Instruments

#### Outcome-based

Financial incentives are aligned with the achievement of measurable and verifiable outcomes.

- Impact bond
- Social impact guarantee
- Social success note (SSN)
- Social impact incentives (SIINC)\*

#### Debt-based

Private capital is used to provide debt at terms more favourable than the market to finance social sector initiatives.

- Subordinate debt
- Concessional debt
- Interest subvention

#### Risk-based

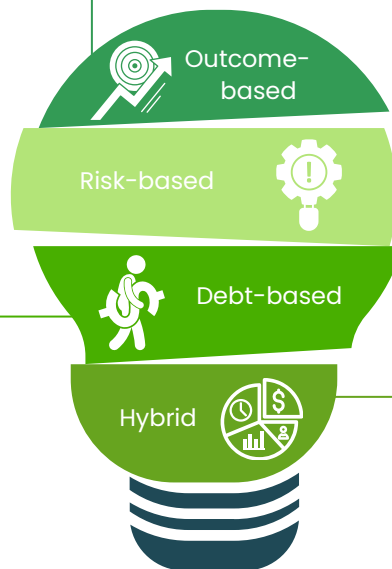
Financial risks for investors are mitigated and creditworthiness of the recipients are enhanced by providing a guarantee as a risk-cover.

- Partial credit guarantee (PCG)
- Pari-passu guarantee
- First loss default guarantee (FLDG)

#### Hybrid

Flexible and customised financial structures, leveraging a mix of grants, equity and debt.

- Returnable grant
- Mezzanine finance
- Quasi-equity



\*Since SIINC has not been implemented in India, its details are not covered in the primer. For more details visit: <https://www.roots-of-impact.org/siinc/>

Source: Secondary literature and key informant interviews





# 4

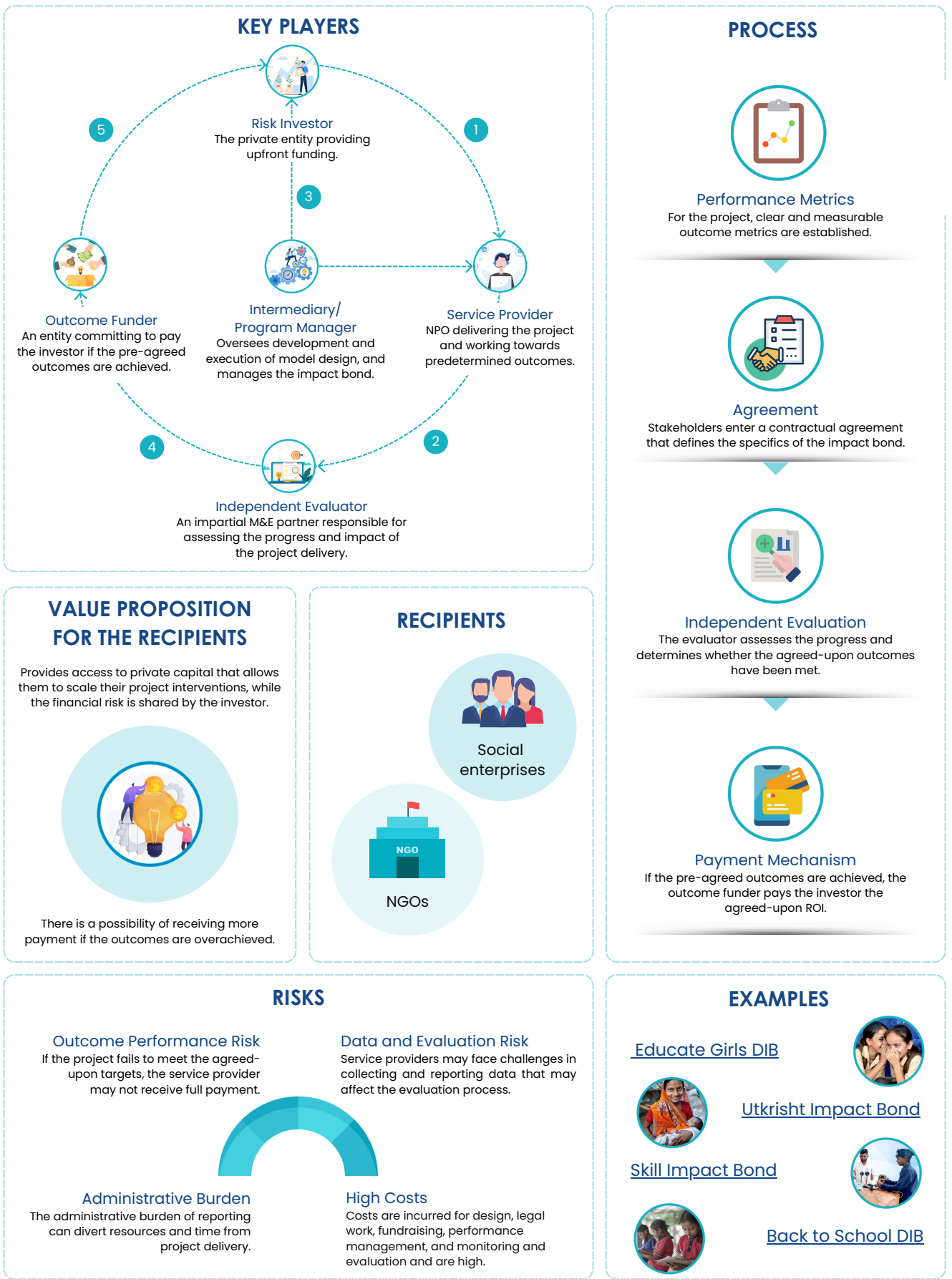
## Outcome-based Instruments

These instruments link fund disbursement or returns on investment to achieving specific social outcomes, aligning financial incentives with measurable results. They prioritise actual project results over inputs or activities. Examples of outcome-based instruments include Social Impact Bonds (SIBs), Development Impact Bonds (DIBs) and Social Success Notes (SSNs), and Outcome-based contracts, among others.

Figure 4: Impact bonds

## 4.1. Impact Bonds

Private investors provide upfront funding to a social program, and the returns on their investment are tied to the successful achievement of predetermined outcomes. The structure encourages results-oriented interventions, risk-sharing, and collaboration between the public, private, and social sectors.



## PRE-REQUISITES (Impact Bonds)

### Measurable Outcomes

- Are the outcomes of your project intervention measurable?

YES

### Legal Compliance

- Is your organisation registered in the appropriate legal structure (e.g. Section 8 company, Cooperative/Society, Trust, 501 (c) (3))?
- Does your organisation have the required certifications, such as 80 G, 12 A, and CSR 1?

YES

### Financial Diligence

- Do you follow financial due diligence with audits and filing of timely income tax returns?
- Are you open to sharing your financial statements with donors?

YES

### Organisation Culture

- Are you receptive to donors and financial intermediaries engaging in discussions with your management, seeking market feedback, and connecting with former funders as part of their assessment?
- Is the organisation's leadership willing to adapt strategies to ensure evidence-based decision-making?

YES

### Proof of Concept and Operational Stability

- Can your organisation provide proof of a successful concept, even if at a small scale?
- Has your organisation demonstrated operational stability?

YES

### Scalability

- Does your organisation have the necessary personnel and infrastructure to scale project interventions?

YES

### Streamlined Systems and Processes

- Do you have well-established systems and processes for finance, accounts, talent management, and governance?
- Do you have internal data systems to measure intervention costs and outcomes?
- Do you undertake internal or external/third-party impact evaluation exercises?

YES

### Ethics and Reputation

- Does your organisation uphold ethical standards in all activities and ensure transparency in its operations?

YES

Organisation fulfils all the pre-requisites

NO

Organisation does not fulfil pre-requisites

Source: Secondary literature and key informant interviews

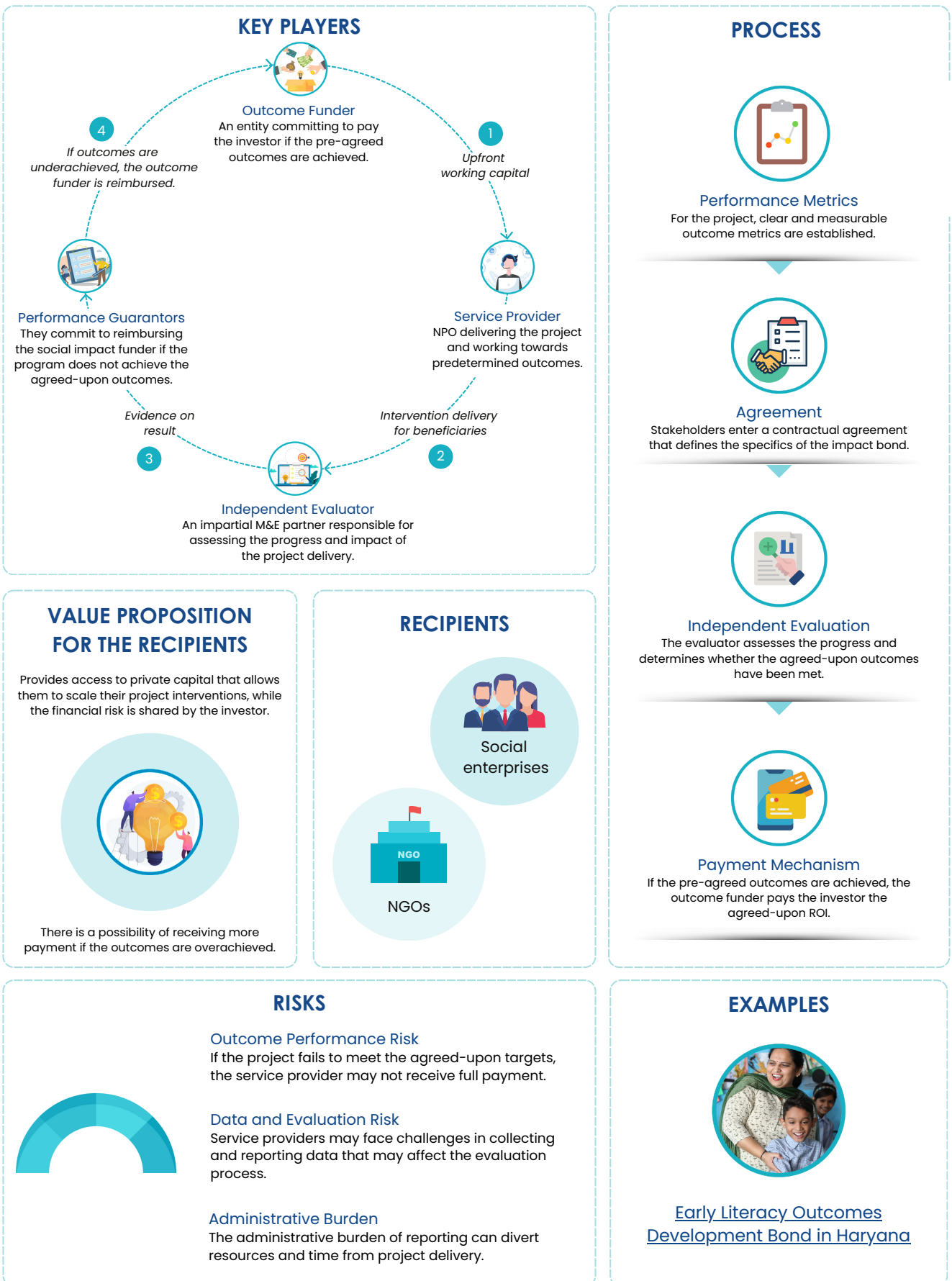
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Figure 5: Social Impact Guarantees

## 4.2. Social Impact Guarantees

An arrangement in which a third-party entity, often referred to as a guarantor, commits to reimbursing a social impact funder, if a specific set of predetermined outcomes are not achieved.



## PRE-REQUISITES (Social Impact Guarantees)

### Measurable Outcomes

- Are the outcomes of your project intervention measurable?

YES

### Legal Compliance

- Is your organisation registered in the appropriate legal structure (e.g. Section 8 company, Cooperative/Society, Trust, 501 (c) (3))?
- Does your organisation have the required certifications, such as 80 G, 12 A, and CSR 1?

YES

### Financial Diligence

- Do you follow financial due diligence with audits and filing of timely income tax returns?
- Are you open to sharing your financial statements with donors?

YES

### Organisation Culture

- Are you receptive to donors and financial intermediaries engaging in discussions with your management, seeking market feedback, and connecting with former funders as part of their assessment?
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- Do you have internal data systems to measure intervention costs and outcomes?
- Do you undertake internal or external/third-party impact evaluation exercises?

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Organisation does not fulfil pre-requisites

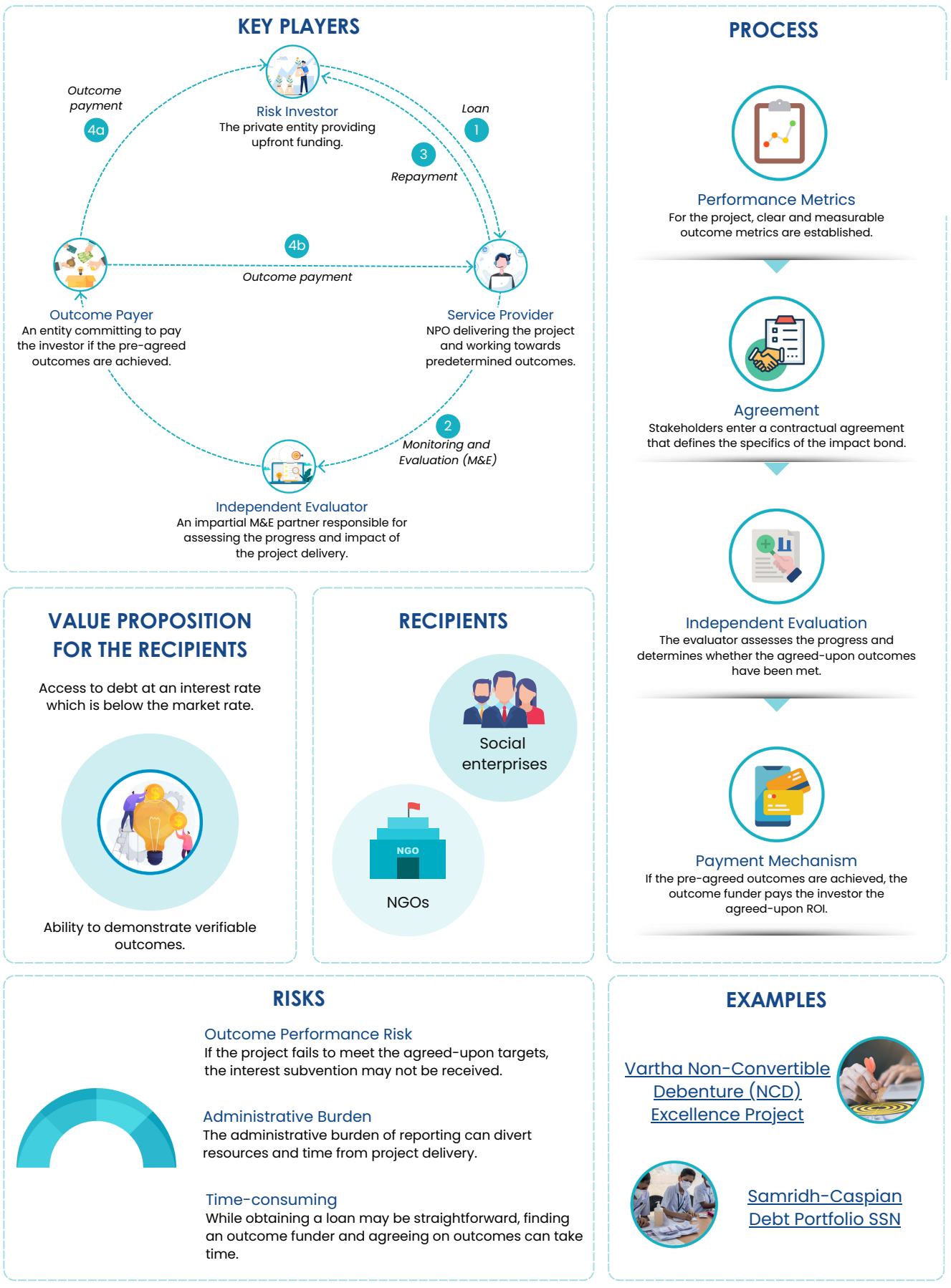
Source: Secondary literature and key informant interviews

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Figure 6: Social Success Note

### 4.3. Social Success Note

The Social Success Note is an outcome-linked interest subvention that provides affordable financing options for for-profit social enterprises. In the SSN model, an investor provides a concessional loan to a for-profit social enterprise capable of managing a low-cost debt and has a proven impact model and a business model.





## PRE-REQUISITES (Social Success Note)

### Measurable Outcomes

- Are the outcomes of your project intervention measurable?

YES

### Legal Compliance

- Are you compliant with the financial transaction rules, including RBI guidelines and regulations governing foreign transactions, if applicable?

YES

### Evaluating Business

- Does your organisation have the ability to service debt?
- Is your social business stable with predictable cash flows, and have you conducted a risk assessment?
- Do you have a well-structured business plan covering your mission, goals, strategies, market analysis, financial projections, and impact targets?

YES

### Track Record

- Can you showcase a history of generating revenue, profitability, and strong business performance?

YES

### Impact Measurement

- Are you capable of verifying data reported by your organisation?
- If the outcomes of the SSNs are different from the service delivery targets of the social business, are you open to external/third-party impact evaluation exercises?

YES

### Collateral Requirements

- Do you have collateral to get debt?

YES

### Team Competency and Leadership

- Does your team possess the competencies and experience to execute the business plan effectively?
- Is the organisational leadership receptive to donors and financial intermediaries engaging in discussions with your management, seeking market feedback, etc., as part of their assessment?

NO

Organisation fulfils all the pre-requisites

YES

Organisation does not fulfil pre-requisites

Source: Secondary literature and key informant interviews

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# 5

## Risk-based Instruments

These instruments aim to mitigate financial risks for investors and lenders, and provide financial security or assurance against potential losses making the projects more attractive to investors and facilitating the flow of capital to socially impactful initiatives. It is suitable for entities capable of servicing debt through their business model. Risk-based instruments include partial credit guarantees, pari-passu guarantees and first loss default guarantees.

Figure 7: Partial credit guarantee

## 5.1. Partial Credit Guarantee

An arrangement in which a guarantor provides a partial guarantee on a loan or debt instrument. A third-party guarantor agrees to cover a portion of the losses incurred by the lender or investor in case of default by the borrower.

### KEY PLAYERS



**Guarantors**  
Provide partial guarantee on a loan up to x%.



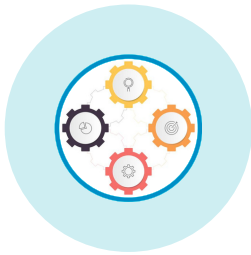
**Investor/Lender**  
Give loan with protection against financial risk from guarantor.



**Social Enterprises**  
Get a loan from the lender.

### PROCESS

A third party covers a specific portion of the losses incurred by the investor in case of default.



### RECIPIENTS



Social enterprises

### VALUE PROPOSITION FOR THE RECIPIENTS

Social enterprises that have a sound business model and track record can use PCG to enhance their creditworthiness.



### RISKS



#### Restrictions on Use of Funds

The recipient organisations may have limitations on how they can use the guaranteed funds or may need to comply with specific financial management requirements.

### EXAMPLES

[USAID-USDFC Forestry Partial Credit Guarantee](#)



[USAID-USDFC AgTech Partial Credit Guarantee](#)



## PRE-REQUISITES (Partial Credit Guarantee)

### Compliance

- Are you compliant with the financial transaction rules, including RBI guidelines and regulations governing foreign transactions, if applicable?

YES

### Evaluating Business

- Does your organisation have the ability to service debt?
- Is your social business stable with predictable cash flows, and have you conducted a risk assessment?
- Do you have a well-structured business plan covering your mission, goals, strategies, market analysis, financial projections, and impact targets?

YES

### Track Record

- Can you showcase a history of generating revenue, profitability, and overall business performance?

YES

### Impact Measurement

- Are you capable of verifying data reported by your organisation?

YES

### Collateral Requirements

- Do you have collateral to get debt?

YES

### Team Competency and Leadership

- Does your team possess the competencies and experience to execute the business plan effectively?
- Is the organisational leadership receptive to donors and financial intermediaries engaging in discussions with your management, seeking market feedback as part of their assessment?

YES

Organisation fulfils all the pre-requisites

Organisation does not fulfil pre-requisites

NO

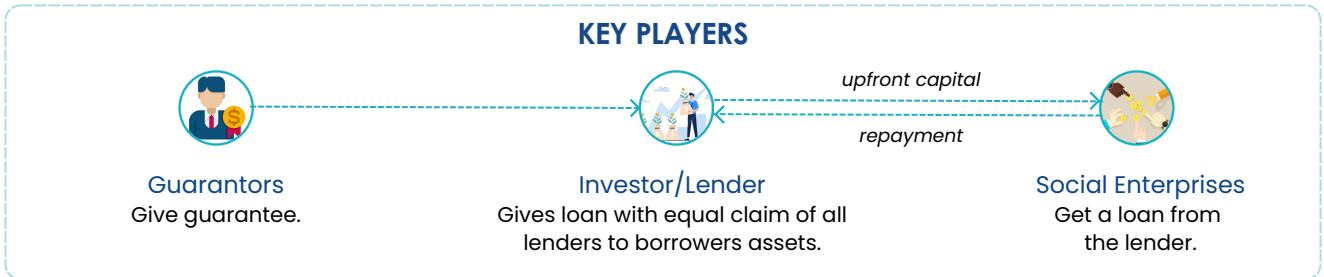
Source: Secondary literature and key informant interviews

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Figure 8: Pari-passu guarantee

## 5.2. Pari-passu Guarantee

It is utilised to attract multiple investors or lenders to support a social initiative. All the investors or lenders are treated equally in terms of their rights to claim repayment in case of a default by the borrower, ensuring a fair distribution of proceeds in the event of any financial distress.



**PROCESS**

It ensures that multiple creditors or investors have equal rights to claim repayment in case of default.

**RECIPIENTS**

Social enterprises

**VALUE PROPOSITION FOR THE RECIPIENTS**

It is used when multiple investors collaborate to fund a social project.

**RISKS**


**Equal Claim on Assets**


In case of default, borrowers face the risk of multiple lenders seeking repayment simultaneously.


**Increased Monitoring and Reporting**

With multiple lenders, monitoring and reporting requirements may be higher.

**EXAMPLES**

[USAID-USDFC Healthcare Partial Credit Guarantee](#) 

[USAID-USDFC COVID Response Partial Credit Guarantee](#) 

[USAID-USDFC Clean Energy Partial Credit Guarantee](#) 

## PRE-REQUISITES (Pari-passu Guarantee)

### Compliance

- Are you compliant with the financial transaction rules, including RBI guidelines and regulations governing foreign transactions, if applicable?

YES

### Evaluating Business

- Does your organisation have the ability to service debt?
- Is your social business stable with predictable cash flows, and have you conducted a risk assessment?
- Do you have a well-structured business plan covering your mission, goals, strategies, market analysis, financial projections, and impact targets?

YES

### Track Record

- Can you showcase a history of generating revenue, profitability, and overall business performance?

YES

### Impact Measurement

- Are you capable of verifying data reported by your organisation?

YES

### Collateral Requirements

- Do you have collateral to get debt?

YES

### Team Competency and Leadership

- Does your team possess the competencies and experience to execute the business plan effectively?
- Is the organisational leadership receptive to donors and financial intermediaries engaging in discussions with your management, seeking market feedback as part of their assessment?

YES

Organisation fulfils all the pre-requisites

Organisation does not fulfil pre-requisites

NO

Source: Secondary literature and key informant interviews

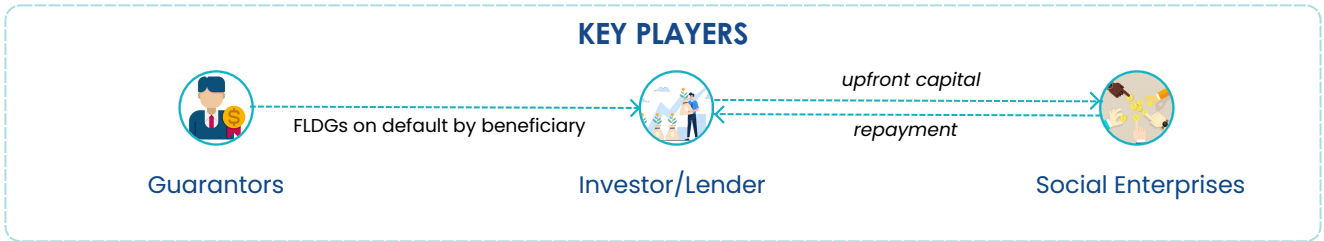
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Figure 9: First loss default guarantee

### 5.3. First Loss Default Guarantee

A guarantor covers the risk of initial loan default by a borrower and agrees to reimburse the lender for losses incurred as a result of the borrower's first default on the loan.



**PROCESS**

The guarantor covers the risk of initial loan default by a borrower.

**RECIPIENTS**

Social enterprises

**VALUE PROPOSITION FOR THE RECIPIENTS**

Derisk investments in social enterprises that are in the early stages of development and have limited track records.

**RISKS**

**Limited Loss Absorption Capacity**  
Losses are covered only up to the specified amount. If losses exceed this threshold, the remaining risk is borne by the lender.

**Time-consuming in Case of New Products**  
Stress testing with new products before commercial introduction can be time-consuming and expensive. This is especially true for climate-focused social enterprises.

**EXAMPLES**

[Northern Arc multi-originator securitization \(MOSEC\) transactions](#)

[CIIE.CO—FinTech incubator](#)

## PRE-REQUISITES (First Loss Default Guarantee)

### Compliance

- Are you compliant with the financial transaction rules, including RBI guidelines and regulations governing foreign transactions, if applicable?

YES

### Evaluating Business

- Does your organisation have the ability to service debt?
- Is your social business stable with predictable cash flows, and have you conducted a risk assessment?
- Do you have a well-structured business plan covering your mission, goals, strategies, market analysis, financial projections, and impact targets?

YES

### Track Record

- Can you showcase a history of generating revenue, profitability, and overall business performance?

YES

### Impact Measurement

- Are you capable of verifying data reported by your organisation?

YES

### Collateral Requirements

- Do you have collateral to get debt?

YES

### Team Competency and Leadership

- Does your team possess the competencies and experience to execute the business plan effectively?
- Is the organisational leadership receptive to donors and financial intermediaries engaging in discussions with your management, seeking market feedback as part of their assessment?

YES

Organisation fulfils all the pre-requisites

Organisation does not fulfil pre-requisites

NO

Source: Secondary literature and key informant interviews

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# 6

## Debt-based Instruments

Debt-based instruments involve borrowing funds to support social enterprises, attracting private investors seeking financial returns through interest payments. Recipients gain access to private capital that is typically inaccessible to them. It is suitable for entities capable of servicing debt through their business model. Examples include subordinated debt, concessional debt, and interest subvention.



Figure 10: Subordinated debt

## 6.1. Subordinated Debt

A form of debt that ranks lower in priority for repayment than other debt in case of bankruptcy or default. This means that other creditors and investors are repaid first in case of financial distress.

### KEY PLAYERS



**Investors/Lenders**  
Individuals, impact funds, development finance institutions, and governments willing to provide capital.



**Recipients**  
Organisations seeking finance through the instruments.



**Financial Intermediaries**  
Organisations or platforms that connect investors with recipients and facilitate negotiations and agreements between parties.

### VALUE PROPOSITION FOR THE RECIPIENTS

Ranks lower in priority for repayment than other creditors and investors. Other creditors and investors are repaid first in case of financial distress.



### RECIPIENTS



Social enterprises

### PROCESS



Identification of social projects/proposal submission



Project evaluation



Negotiation of terms and conditions



Legal documentation/agreement



Fund disbursement



Monitoring, evaluation, and reporting

### RISKS

**Compliance and Reporting**  
It may impose specific compliance and reporting requirements, which can increase administrative burdens and costs.

**Higher Interest Costs**  
Since there is more risk to the lender, it comes with higher interest costs.

**Limited Financial Flexibility**  
As there is a hierarchy in terms of repayment, taking on subordinate debt may reduce the borrower's flexibility in taking on additional debt.

### EXAMPLES

Northern Arc Persistent Securitization (PERSEC)



Promising Lenders Fund

## PRE-REQUISITES (Subordinated Debt)

### Compliance

- Are you compliant with the financial transaction rules, including RBI guidelines and rules governing foreign transactions, if applicable?

YES

### Evaluating Business

- Does your organisation have the ability to service debt?
- Is your social business stable with predictable cash flows, and have you conducted a risk assessment?
- Do you have a well-structured business plan covering your mission, goals, strategies, market analysis, financial projections, and impact targets?

YES

### Track Record

- Can you showcase a history of generating revenue, profitability, and an overall strong business performance?

YES

### Impact Measurement

- Are you capable of verifying data reported by your organisation?

YES

### Collateral Requirements

- Do you have collateral to get debt?

YES

### Team Competency and Leadership

- Does your team possess the competencies and experience to execute the business plan effectively?
- Is the organisational leadership receptive to donors and financial intermediaries engaging in discussions with your management, seeking market feedback and so on, as part of their assessment?

YES

Organisation fulfils all the pre-requisites

NO

Organisation does not fulfil pre-requisites

Source: Secondary literature and key informant interviews

**Disclaimer:** The pre-requisites outlined in this primer are intended to provide a general understanding of the considerations involved in participating in a financial instrument. It is crucial to note that these pre-requisites do not constitute the exact eligibility criteria for any specific transaction. The actual eligibility criteria may vary based on the requirements and context of each transaction, as well as the interests of the participants involved in the instrument.

Figure 11: Concessional debt

## 6.2. Concessional Debt

Debt with favourable terms and conditions as compared to that of the standard market loans. These terms may include lower interest rates, longer repayment periods, or grace periods before repayment begins. The goal is to generate positive social returns, with lenders prioritising financial returns as well but willing to offer better rates to facilitate social impact.

### KEY PLAYERS



**Investors/Lenders**  
Individuals, impact funds, development finance institutions, and governments willing to provide capital.



**Recipients**  
Organisations seeking finance through the instruments.



**Financial Intermediaries**  
Organisations or platforms that connect investors with recipients and facilitate negotiations and agreements between parties.

### VALUE PROPOSITION FOR THE RECIPIENTS

Favourable terms and conditions compared to standard market loans, including lower interest rates, longer repayment periods, or grace periods before repayment begins.



### RECIPIENTS



Social enterprises

### PROCESS



Identification of social projects/proposal submission



Project evaluation



Negotiation of terms and conditions



Legal documentation/agreement



Fund disbursement



Monitoring, evaluation, and reporting

### RISKS



**Compliance and Reporting**  
It may impose specific compliance and reporting requirements, which can increase administrative burdens and costs.

### EXAMPLES

[Solar Arise India Projects Pvt Ltd](#)



[SAMRIDH Healthcare Blended Financing Facility](#)



## PRE-REQUISITES (Concessional Debt)

### Compliance

- Are you compliant with the financial transaction rules, including RBI guidelines and rules governing foreign transactions, if applicable?

YES

### Evaluating Business

- Does your organisation have the ability to service debt?
- Is your social business stable with predictable cash flows, and have you conducted a risk assessment?
- Do you have a well-structured business plan covering your mission, goals, strategies, market analysis, financial projections, and impact targets?

YES

### Track Record

- Can you showcase a history of generating revenue, profitability, and an overall strong business performance?

YES

### Impact Measurement

- Are you capable of verifying data reported by your organisation?

YES

### Collateral Requirements

- Do you have collateral to get debt?

YES

### Team Competency and Leadership

- Does your team possess the competencies and experience to execute the business plan effectively?
- Is the organisational leadership receptive to donors and financial intermediaries engaging in discussions with your management, seeking market feedback and so on, as part of their assessment?

NO

Organisation fulfils all the pre-requisites

YES

Organisation does not fulfil pre-requisites

Source: Secondary literature and key informant interviews

**Disclaimer:** The pre-requisites outlined in this primer are intended to provide a general understanding of the considerations involved in participating in a financial instrument. It is crucial to note that these pre-requisites do not constitute the exact eligibility criteria for any specific transaction. The actual eligibility criteria may vary based on the requirements and context of each transaction, as well as the interests of the participants involved in the instrument.

Figure 12: Interest subvention

### 6.3. Interest Subvention

It involves providing financial assistance by subsidising the interest cost on loans to reduce the cost of borrowing for social projects. It is usually not linked to outcomes. In India, the government usually supports interest subvention on credit for priority sectors.

#### KEY PLAYERS



**Investors/Lenders**  
Individuals, impact funds, development finance institutions, and governments willing to provide capital.



**Recipients**  
Organisations seeking finance through the instruments.



**Financial Intermediaries**  
Organisations or platforms that connect investors with recipients and facilitate negotiations and agreements between parties.

#### VALUE PROPOSITION FOR THE RECIPIENTS

Subsidises interest cost on loans



Reduces cost of borrowing

#### RECIPIENTS



Social enterprises

#### PROCESS



Identification of social projects/proposal submission



Project evaluation



Negotiation of terms and conditions



Legal documentation/agreement



Fund disbursement



Monitoring, evaluation, and reporting

#### RISKS



##### Compliance and Reporting

It may impose specific compliance and reporting requirements, which can increase administrative burdens and costs.

##### Limited Availability

Interest subvention programs generally have limited funding.

##### Distorted Incentive

Borrowers may be incentivised to take on more debt than necessary or make suboptimal financial decisions due to the subsidised interest rates, leading to the misallocation of resources.

#### EXAMPLES

Job Opportunities and You (JOY) Sustainable Development Goal Impact Bond



Power Impact Bond

## PRE-REQUISITES (Interest Subvention)

### Compliance

- Are you compliant with the financial transaction rules, including RBI guidelines and rules governing foreign transactions, if applicable?

YES

### Evaluating Business

- Does your organisation have the ability to service debt?
- Is your social business stable with predictable cash flows, and have you conducted a risk assessment?
- Do you have a well-structured business plan covering your mission, goals, strategies, market analysis, financial projections, and impact targets?

YES

### Track Record

- Can you showcase a history of generating revenue, profitability, and an overall strong business performance?

YES

### Impact Measurement

- Are you capable of verifying data reported by your organisation?

YES

### Collateral Requirements

- Do you have collateral to get debt?

YES

### Team Competency and Leadership

- Does your team possess the competencies and experience to execute the business plan effectively?
- Is the organisational leadership receptive to donors and financial intermediaries engaging in discussions with your management, seeking market feedback and so on, as part of their assessment?

YES

Organisation fulfils all the pre-requisites

Organisation does not fulfil pre-requisites

NO

Source: Secondary literature and key informant interviews

**Disclaimer:** The pre-requisites outlined in this primer are intended to provide a general understanding of the considerations involved in participating in a financial instrument. It is crucial to note that these pre-requisites do not constitute the exact eligibility criteria for any specific transaction. The actual eligibility criteria may vary based on the requirements and context of each transaction, as well as the interests of the participants involved in the instrument.





# Hybrid Instruments

Hybrid instruments allow flexible and customised financial structures, leveraging a mix of grants, equity, and debt to maximise financial returns and social impact. Some examples include returnable grants, mezzanine financing, and quasi-equity.

Figure 13: Returnable grant

## 7.1. Returnable Grant

It provides short-term, affordable, and flexible capital (zero interest and zero collateral) to individuals and social enterprises. The returnable grant levies borrowers with a moral and not a legal obligation to repay.

### KEY PLAYERS



#### Investors/Lenders

Provide finance and may include philanthropic foundations, impact investors, DFIs, and commercial investors.



#### Recipients

Seek finance and may include individuals and/or social enterprises.



#### Intermediaries/ Facilitators

Connect investors with the recipients.

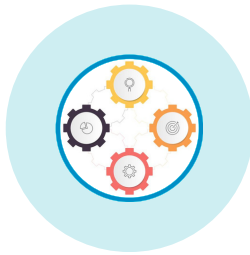


#### Evaluation Partners

Independent entities that track and measure the project's progress and assess its impact.

### PROCESS

It provides short-term, affordable, and flexible capital (zero interest and zero collateral) to individuals and social enterprises. The returnable grant levies borrowers with a moral and not a legal obligation to repay.



### RECIPIENTS



Not-for-profit social enterprises



Communities



NGOs

### VALUE PROPOSITION FOR THE RECIPIENTS



Moral and not legal obligation to repay.



The potential ability of selected participants to repay as cohort.



At the systems level, once returnable grants (RGs) are reimbursed, the funds can be reused and reinvested, establishing an enduring funding cycle that sustains the impact in the long run.

### RISKS



May include monitoring and reporting requirements to track the progress and impact, which may be burdensome.

### EXAMPLES

#### REVIVE Alliance



#### Blackfrog Technologies Pvt Ltd

## PRE-REQUISITES (Returnable Grant)

### Compliance

- Is your organisation registered in the appropriate legal structure (e.g. Section 8 company, Cooperatives/Society, Trust, 501 (c) (3))?
- Are you compliant with FCRA guidelines when utilising foreign funds?
- Are your activities aligned with the approved CSR categories listed in Schedule VII of the Companies Act 2013?

YES

### Financial Diligence

- Do you ensure that the funds are used for designated business purposes only?
- Do you maintain proper records of fund utilisation, prepare periodic reports, and ensure transparency in reporting?

YES

### Need and Potential to Repay

- Are you a first-time participant needing capital without an established credit history?
- Do you have the potential to repay as a cohort collectively?
- Can the returnable grant complement other ongoing interventions effectively?

YES

Organisation fulfils all the pre-requisites

NO

Organisation does not fulfil pre-requisites

Source: Secondary literature and key informant interviews

**Disclaimer:** The pre-requisites outlined in this primer are intended to provide a general understanding of the considerations involved in participating in a financial instrument. It is crucial to note that these pre-requisites do not constitute the exact eligibility criteria for any specific transaction. The actual eligibility criteria may vary based on the requirements and context of each transaction, as well as the interests of the participants involved in the instrument.



Figure 14: Mezzanine financing

## 7.2. Mezzanine Financing

A type of debt financing that includes equity-like features. It is usually provided like a subordinated loan, ranking below claims of other investors and lenders in terms of repayment priority, but also includes an equity component, such as warrants or options, which allows the lender to convert their debt into equity if certain conditions are met (like achieving specific operational or financial milestones).

### KEY PLAYERS



#### Investors/Lenders

Provide finance and may include philanthropic foundations, impact investors, DFIs, and commercial investors.



#### Recipients

Seek finance and may include individuals and/or social enterprises.



#### Intermediaries/ Facilitators

Connect investors with the recipients.



#### Evaluation Partners

Independent entities that track and measure the project's progress and assess its impact.

### PROCESS

It includes equity-like features. It is usually provided like a subordinated loan, ranking below claims of other investors and lenders in terms of repayment priority, but also includes an equity component, such as warrants or options, which allows the lender to convert their debt to equity if certain conditions are met (like achieving specific operational or financial milestones).



### RECIPIENTS

It is commonly used to fund the scaling of established enterprises and is utilised by social enterprises with strong cash flows and creditworthiness.



For-profit  
social enterprises

### VALUE PROPOSITION FOR THE RECIPIENTS



Useful to scale social enterprises.



If the enterprise meets milestones, debt can be converted to equity instruments, which reduces the repayment burden.

### RISKS



#### High Interest

It typically comes with higher interest rates than traditional debt.

#### Equity Conversion

The equity component could result in a dilution of ownership and control of the borrower.

### EXAMPLES



Promising Lenders Fund

## PRE-REQUISITES (Mezzanine Financing)

### Compliance

- Are you compliant with the financial transaction rules, including RBI guidelines and regulations governing foreign transactions, if applicable?

YES

### Evaluating Business

- Does your organisation have the ability to service debt?
- Is your social business stable with predictable cash flows, and have you conducted a risk assessment?
- Do you have a well-structured business plan covering your mission, goals, strategies, market analysis, financial projections, and impact targets?

YES

### Track Record

- Can you showcase a history of generating revenue, profitability, and strong business performance?

YES

### Impact Measurement

- Are you capable of verifying data reported by your organisation?

YES

### Collateral Requirements

- Do you have the collateral to get debt?

YES

### Team Competency and Leadership

- Does your team possess the competencies and experience to execute the business plan effectively?
- Is the organisational leadership receptive to donors and financial intermediaries engaging in discussions with your management, seeking market feedback, etc., as part of their assessment?

YES

Organisation fulfils all the pre-requisites

Organisation does not fulfil pre-requisites

NO

Source: Secondary literature and key informant interviews

**Disclaimer:** The pre-requisites outlined in this primer are intended to provide a general understanding of the considerations involved in participating in a financial instrument. It is crucial to note that these pre-requisites do not constitute the exact eligibility criteria for any specific transaction. The actual eligibility criteria may vary based on the requirements and context of each transaction, as well as the interests of the participants involved in the instrument.

Figure 15: Quasi-equity

## 7.3. Quasi-equity

It combines features of both debt and equity with flexible repayment terms. The returns are not fixed like traditional debt interest payments. Rather, it expects equity-like returns, where repayment is often tied to the borrower's performance. It may include revenue-sharing, profit-sharing, or royalty arrangements, where the lender receives a portion of the borrower's profits over a specified period of time.

### KEY PLAYERS



#### Investors/Lenders

Provide finance and may include philanthropic foundations, impact investors, DFIs, and commercial investors.



#### Recipients

Seek finance and may include individuals and/or social enterprises.



#### Intermediaries/ Facilitators

Connect investors with the recipients.

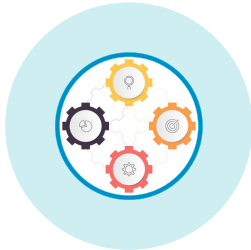


#### Evaluation Partners

Independent entities that track and measure the project's progress and assess its impact.

### PROCESS

It combines features of both debt and equity, with flexible repayment terms. The returns are not fixed like traditional debt interest payments. Rather, it expects equity-like returns where repayment is often tied to the performance of the borrower. It may include revenue-sharing, profit-sharing, or royalty arrangements, where the lender receives a portion of the borrower's profits over a specified period of time.



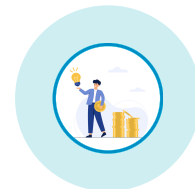
### RECIPIENTS

It is often used to finance startups and/or early-stage enterprises where traditional financing may not be available.

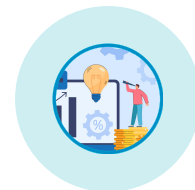


For-profit  
social enterprises

### VALUE PROPOSITION FOR THE RECIPIENTS



Returns are tied to the performance of the borrowers.



Useful for startups and early-stage enterprises.

### RISKS



#### Investor Influence

Investors may have governance rights or board representation.

#### Exit Obligation

Investors have the right to exit after a certain period. Social enterprises will need to provide liquidity in that case.

### EXAMPLES

[Aavishkaar Group](#)



[Omidyar Network  
India](#)



## PRE-REQUISITES (Quasi-equity)

### Compliance

- Are you compliant with the financial transaction rules, including RBI guidelines and regulations governing foreign transactions, if applicable?

YES

### Evaluating Business

- Does your organisation have the ability to service debt?
- Is your social business stable with predictable cash flows, and have you conducted a risk assessment?
- Do you have a well-structured business plan covering your mission, goals, strategies, market analysis, financial projections, and impact targets?

YES

### Track Record

- Can you showcase a history of generating revenue, profitability, and strong business performance?

YES

### Impact Measurement

- Are you capable of verifying data reported by your organisation?

YES

### Collateral Requirements

- Do you have the collateral to get debt?

YES

### Team Competency and Leadership

- Does your team possess the competencies and experience to execute the business plan effectively?
- Is the organisational leadership receptive to donors and financial intermediaries engaging in discussions with your management, seeking market feedback, etc., as part of their assessment?

YES

Organisation fulfils all the pre-requisites

Organisation does not fulfil pre-requisites

NO

Source: Secondary literature and key informant interviews

**Disclaimer:** The pre-requisites outlined in this primer are intended to provide a general understanding of the considerations involved in participating in a financial instrument. It is crucial to note that these pre-requisites do not constitute the exact eligibility criteria for any specific transaction. The actual eligibility criteria may vary based on the requirements and context of each transaction, as well as the interests of the participants involved in the instrument.



# 8

## **Preparing the Social Sector for Innovative Finance: Roadmap to Future**

Figure 16: Roadmap to Future

## 1. Identification of Instruments and Conducting a Preliminary Feasibility Test



Identify the instrument.



Conduct a feasibility assessment to ensure alignment with organisational and project goals.



Check for discrepancies, if any.



Modify as per feasibility assessment results and ensure alignment with organisational and project goals.



Get onboarded for the process of finalising the deal.

## 2. Building Organisational Capacities



Improve reporting and disclosure mechanisms, showcasing social and financial outcomes for transparency.



Evaluate and streamline internal structures and organisational processes for efficiency.



Establish a robust theory of change.



Gather a comprehensive program track record on outcomes, successful partnerships, and scale achieved.



Review and evolve talent management practices on both managerial and grassroots levels.



Build the skills of employees to execute innovative finance instruments.



## 3. Use of Technology and Data Management for Transparency



Implement a data-driven approach to decision-making.



Use data to identify areas where strategy revisions are needed.



Use technology for better monitoring and reporting practices and to share information about fund allocation, stakeholders involved, costs per outcome, beneficiaries of project interventions, and more.



## 4. Risk Management



- Proactively identify, monitor, and manage risks that can potentially disrupt program implementation.
- Develop strategies for managing and mitigating risks.
- Ensure collaboration between program and field teams to identify risks and develop mitigation strategies.
- Foster strong leadership committed to continuous learning, innovation, and agile decision-making.



## 5. Mindset and Cultural Shifts



- The leadership, the management, and the field teams should believe in the innovative finance model and the instrument being implemented.
- Be ready to subject interventions to external evaluations.
- Building confidence, domain expertise, and necessary experience for external evaluations.
- Promote effective leadership that shapes organisational culture and displays agility in the decision-making process.

Source: Secondary literature and key informant interviews



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# Social Stock Exchange

## Context

In the Budget Speech for the fiscal year 2019–20, Finance Minister Smt. Nirmala Sitharaman introduced the concept of an electronic fundraising platform known as the “Social Stock Exchange” (SSE). This platform, regulated by the Securities and Exchange Board of India (SEBI), was designed to facilitate the listing of social enterprises—both not-for-profits and for-profits—dedicated to achieving social goals and to enable them to raise capital through various means such as equity, debt, or as units like mutual funds.

## Objectives of the SSE

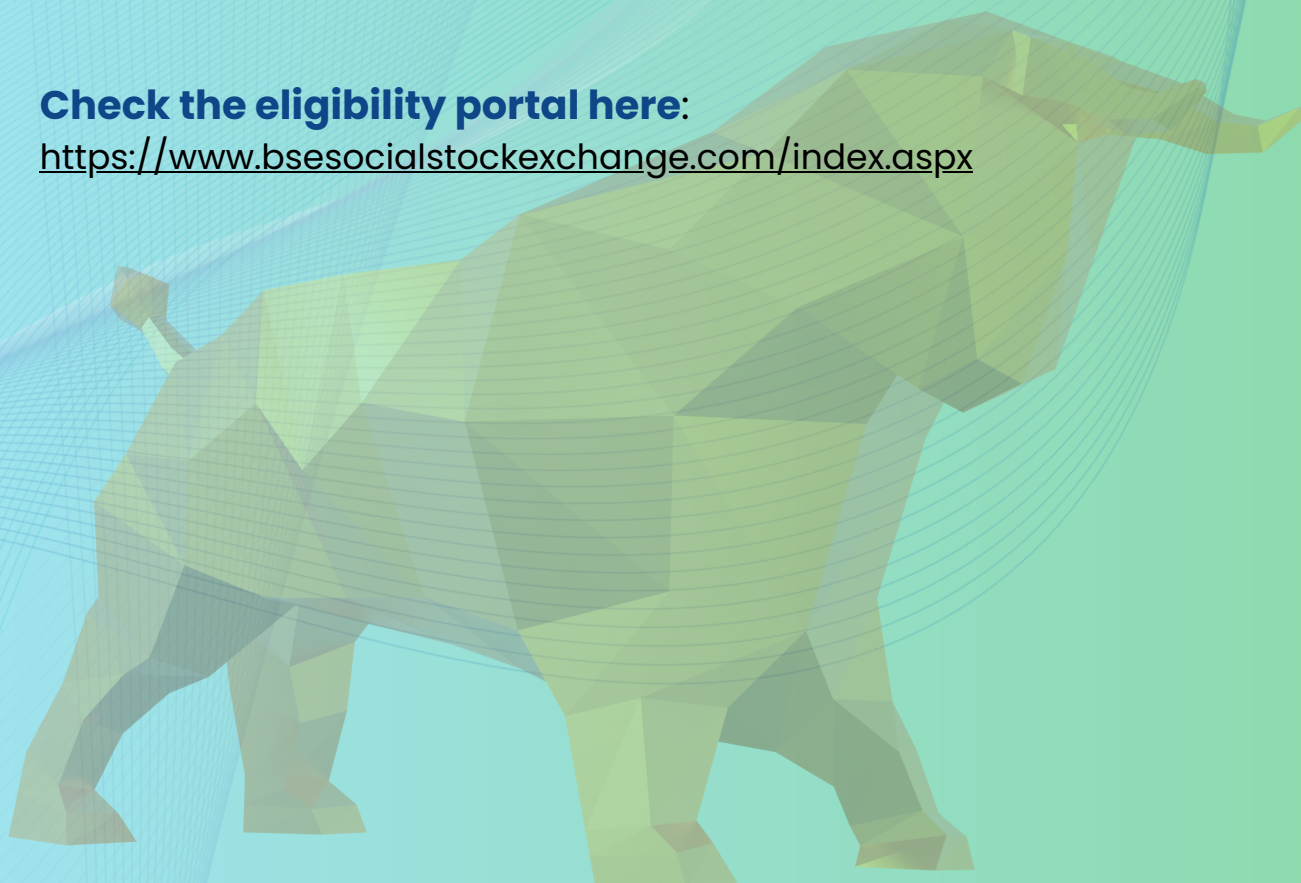
1. Regulated platform that brings together social enterprises and donors
2. Facilitate funding and growth of social enterprises
3. Mechanism to ensure robust standards of social impact and financial reporting

## Check your eligibility

Registration on the Social Stock Exchange is subject to specific eligibility criteria. In collaboration with the SEBI, ISDM has developed a comprehensive eligibility portal for the SSE. This portal serves the purpose of assisting nonprofit organisations in assessing their eligibility status and understanding the pre-requisites for submitting an application on the SSE platform.

## Check the eligibility portal here:

<https://www.bsesocialstockexchange.com/index.aspx>







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# ISDM

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FINANCE AND SOCIAL IMPACT**