ISDM | Centre for Innovative Finance and Social Impact

Fellowship 2024

Report Compendium

Driving Social Impact through Innovative Finance Approaches

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Foreword

I am delighted to introduce this compendium, a collection of research papers produced by the inaugural cohort of Fellows in the Centre for Innovative Finance for Social Impact (CIFSI). This publication marks a significant step in our commitment to fostering thought-leading research and building a vibrant community of practice around innovative finance for social impact.

CIFSI recognises the critical need for evidence-based insights into how innovative financing complements traditional funding in the social sector. To address this and aligned with CIFSI's core mission, we launched the Research Fellowship in 2023 on the theme: "Driving Social Impact through Innovative Finance Approaches."

This compendium represents rigorous research, critical analysis, and a deep commitment to understanding the complexities and potential of innovative finance. They offer valuable contributions, exploring diverse instruments for varied stakeholders and providing practical insights for funders, organisations, and practitioners. We believe these findings will stimulate discussion, influence industry practices, and inspire future research.

This publication reflects a strong collaborative spirit. I extend my sincere gratitude to our Fellows for their hard work, dedication, and insightful contributions. I also appreciate our esteemed mentors and reviewers, whose expert guidance and feedback shaped these papers. Their commitment to nurturing practice-oriented research is deeply valued. To the dedicated CIFSI team, thank you for your tireless efforts in managing the fellowship program and supporting the Fellows. I acknowledge the crucial contributions of our communication team for their meticulous work in ensuring the clarity, accuracy, and beauty of this publication.

This compendium is more than academic papers; it represents a growing body of knowledge poised to transform how we approach social impact. We are confident these insights will contribute to a more robust social sector, driving positive change. We are particularly excited about the potential for these findings to be integrated into practice, informing new financial instruments and strategies that maximise social impact. We also anticipate this work will serve as a springboard for future research, further advancing our understanding of innovative finance.

We are incredibly proud of our Fellows' work and believe this compendium will be a valuable resource. We invite you to engage with the research and join us in building a future where innovative finance drives positive social impact.

Warm regards,

Trisha

Trisha Varma
Director, Global Knowledge Hub, ISDM

About the Fellowship

To foster cutting-edge research and build a vibrant community of practice around innovative finance for social impact, CIFSI launched its Research Fellowship in 2023. A widely publicised call for applications attracted a diverse and talented pool of researchers and practitioners. An esteemed panel of experts with broad professional experience rigorously evaluated the research proposals and conducted interviews to assess each candidate's potential for significant contributions to the field. From this pool, four individuals were selected to form the inaugural cohort of Fellows.

In October 2023, these Fellows began their research journey on the theme "Driving Social Impact through Innovative Finance Approaches." This theme is directly aligned with CIFSI's core mission: to bridge the knowledge gap surrounding 'Innovative Finance' and 'Impact' within the social sector and develop evidence-based insights into how innovative financing approaches can complement traditional funding models.

To ensure high quality and professional standards, the Fellows were provided with research support through a dedicated team of mentors and an esteemed review committee. The mentors, all seasoned experts, included **Emmanuel Murray**, Investment Director at Caspian, with four decades of experience in agriculture, rural credit, and microenterprise finance; **Ankur Sarin**, Associate Professor in the Public Systems Groups at IIM Ahmedabad; **Priyanshu Gupta**, Assistant Professor at IIM Lucknow; and **MS Narasimhan**, Professor of Finance and Accounting at IIM Bangalore. Each Fellow was paired with a mentor of their choosing, fostering a close, collaborative relationship designed to nurture their intellectual growth and guide them throughout the research process.

Quarterly virtual convenings allowed Fellows to invite feedback from the review committee members on the focus of the research and its alignment with the fellowship's objectives. The review committee was comprised of **Priyanshu Gupta, LS Murty**, Dean (Academic) at ISDM, and **Anushree Parekh**, Associate Director of Social Finance at the British Asian Trust. Their critical evaluations and guidance challenged the Fellows to refine their thinking and strengthen their research.

Beyond individual mentorship and review feedback, the Fellows benefited from the collective wisdom of their peers and the CIFSI research team. Monthly meetings with the CIFSI research team provided additional opportunities to discuss progress, address challenges, and plan next steps. This collaborative environment fostered a strong sense of community and facilitated cross-pollination of ideas.

Culminating in December 2024, after two rounds of review and feedback, the Fellows submitted their final research findings. These contributions represent the culmination of months of dedicated work, expertly guided by mentors, review committee members and the CIFSI team. The resulting body of knowledge will add valuable new insights to the field of innovative finance for social impact.

Ria Sinha
Centre lead, CIFSI

Introduction

At the Centre for Innovative Finance and Social Impact (CIFSI), our vision is to harness private capital to drive sustainable social impact. Innovative financing models, such as blended finance, outcome-based financing (OBF), and alternative funding mechanisms, can bridge funding gaps in India's development sector. However, systemic challenges limit their widespread adoption. To explore and address these barriers, CIFSI fellows have conducted extensive research, shedding light on key opportunities and roadblocks in mobilising finance for women entrepreneurs, grassroots NGOs, and impact-driven enterprises.

One key focus is the "missing middle" of women entrepreneurs. Ankur Sohanpal's research examines the untapped potential of women-owned businesses requiring loans between USD 2,500 and USD 7,000. These entrepreneurs struggle to access capital as their financial needs fall between microfinance and traditional impact investments. His study explores how guarantees can encourage lending in this market and proposes a pilot programme within a thriving women-led industry.

Anurag Gangwar investigates challenges hindering the adoption of OBF in India. Despite its potential, barriers such as high transaction costs, legal complexities, and regulatory hurdles limit its effectiveness. Gangwar highlights the absence of standardised metrics for measuring social outcomes as a major obstacle, increasing uncertainty and costs for funders. His paper identifies opportunities and suggests ways to make OBF a more efficient development tool.

Shruti Shriram's research examines the fundraising struggles of grassroots NGOs. Limited access to high-net-worth networks and compliance burdens hinder their ability to secure funding. While innovative finance tools like social impact bonds, crowdfunding, and venture philanthropy offer potential solutions, adoption remains restricted due to high costs and legal complexities. These studies highlight key solutions, such as educating donors, simplifying compliance, and developing standardised impact verification tools. Financial institutions can unlock new markets through tailored risk-mitigation strategies, such as guarantees. NGOs can improve access to capital by embracing alternative finance models and strengthening compliance frameworks.

These research findings align with CIFSI's mission to unlock private capital for social good. Traditional funding sources are often insufficient, and private capital, particularly through impact investing and blended finance, offers a promising solution.

The following chapters present the full research papers as submitted to ISDM. The findings have significant implications across multiple sectors, offering actionable strategies to enhance financial inclusion, improve regulatory frameworks, and strengthen ecosystem collaboration. By leveraging these insights, financial institutions, policymakers, NGOs, philanthropic foundations, and fintech startups can collectively contribute to a more inclusive, efficient, and scalable financial ecosystem that mobilises private capital for sustainable social impact.

Ria Sinha

Ria Sinha
Centre lead, CIFSI

Blending of Capital Through Guarantee:

Type Risk Mitigation Tools to Unlock Access to Productive Credit for Women in the Missing Middle

Ankur Sohanpal

Impact Strategy | Risk & Innovation | Startup Growth | 13+ yrs in social impact M&E, consulting and risk management | Driving deep-impact, commercially viable solutions | Leading startup learning innovation @ IIMA-CIIE | Passionate about scaling impact through smart investments

Mentor: **Emmanuel Murray**

Acknowledgement

I would like to express my sincere gratitude to all those who contributed to the successful completion of this blended finance report. First and foremost, I am deeply indebted to my mentor, Mr. Emmanuel Murray, for his invaluable guidance, unwavering support, and generosity in sharing his expertise throughout this journey. His insights have been instrumental in shaping the direction of this research.

I extend my heartfelt thanks to all the interviewees who graciously spared their time, often more than once, to share their knowledge and perspectives, despite their demanding professional commitments. Their contributions have been pivotal to the depth and richness of this report.

I am also profoundly grateful to IIMA Ventures for their thought leadership in the women-impact perspective on micro-entrepreneurship and blended finance space that has inspired me, and their steadfast support.

Lastly, I thank my cohort peers and the ISDM team for their encouragement and collaborative spirit, which have been vital to this initiative. This report would not have been possible without their collective efforts.

Abstract

Blending of finance - particularly using guarantees, as a way to 'make' the market in unknown and high risk sectors and models is well known. In India, guarantees have been the most frequently used blended finance instrument: their ability to hedge risks by offloading it to patient capital partners in any deal, has always attracted for-profit partners across sectors - particularly the financial sector.

At the same time, lending to the very last mile of women micro-entrepreneurs (the last mile missing middle of women entrepreneurs) is an untapped credit market, one that has commercial potential, has been proven in pockets, and now requires structured piloting at scale to demonstrate market-viability. Women as the subject of such a study, from both an impact and a commercial perspective is crucial: they are known to be levers of deep impact at the household level given an increase in livelihood, and they are also some of the safest borrowers.

This study aims for the first time to examine the relationship between these - guarantees applied to 'make' the market for a very specific category of women-microentrepreneurs, across value chains, within the context of India. It proposes a pilot to take the first step towards this 'market-making' by selecting one of the proposed value chains where the participation of women entrepreneurs has already been proven.

1. Introduction

1.1 Background and Context

Blending of finance as a way to bridge the gap in development capital to serve the most underserved populations should have worked in theory, but is yet to translate into practice at scale. Blending was first recognised as a solution in bridging development capital gaps after the Third International Conference on Financing for Development in July 2015. As on date, the gap in development funding remains significant. The gap to attain the United Nations Sustainable Development Goals (UN SDG) is estimated at USD 4.3 trillion. Since its conception, blending as an instrument has increasingly become the preferred means to extend development capital to emerging and frontier markets; and by most means, blending appears to have worked at scale, well and repeatedly in some sectors (energy, infrastructure). However, if the original objective of blending of funds was to enhance access to capital for development purposes in frontier markets, it has yet to trickle down into sectors that better target and include underserved microentrepreneurs across all Emerging Market and Developing Economies (EMDEs).

Let us take an example of the energy sector, the recipient of the largest proportion of all blended finance transactions between 2014–23. Capital flows towards renewable energy development, particularly solar projects, constituted 91% of all transactions, exhibiting an inclination to engage with known models (solar projects being a familiar project for transaction structure) of energy financing. Another example appears in the financial services segment, where transactions appear to favour continued investments in models that are already well-known and understood, with a heavy distribution in on-lending to micro, small and medium enterprises in EMDEs.

Despite trends in blending transactions appearing to operate more in known models and sectors, the past few years illustrate an increase in women (entrepreneur) end beneficiaries, but this increase is not uniform, nor scalable. Data shows that the proportion of blended finance deals targeting women and missing middle beneficiaries have increased between 2018–20 and 2021–23. However, this increase

[1] 47% of total blended finance flows in emerging markets and developing economies (EMDEs) are in the energy sector.

[2] "The "missing middle" or Small and Growing Businesses (SGBs) are commercially viable firms with growth potential yet, they typically encounter fundraising challenges because they are too big for microfinance, too small or high-risk for larger commercial banks, and could be unsuitable for venture capitalists". (Convergence, 2024).

[3] While the documented deals show an increase in blending to enhance inclusion of SMEs (58%), women (55%), and the missing middle (49%) over deals between 2018-20 and 2021-23.

[4] Access Bank in Nigeria received a USD 25 million unfunded loan portfolio guarantee, backed by USD 265,000 concessional funding from FMO's MASSIF Fund for Financial Inclusion (Convergence, 2024). The Women Entrepreneurs Finance Initiative (We-Fi) targets do not specify the personas of the target women entrepreneurs, or whether they truly belong to the missing middle.

may not be uniform across all EMDEs. Increase in deals targeting women beneficiaries, and the missing middle (and Small and Growing Businesses) may not coincide with a latent market for women at the last mile (low income and rural women), as documented by deals studied in this time frame. In particular, the examples cited of blended finance instruments like guarantees, which are more suited to financial service transactions, chronicle experiments conducted with limited replicability (Convergence, 2024).

Thus, examples of deals targeting women entrepreneurs looking for credit for their businesses (defined as "productive credit") lack standardised information about the size of their enterprises (turnovers), or their loan requirements (ticket sizes), contributing to the problem of low replicability of risk insurance type blending instruments like guarantees, more favourably applied towards creating a market for women micro and nano entrepreneurs in the defined missing middle.

When we further refine the definition of the missing middle of women entrepreneurs in India to identify the more underserved women entrepreneurs at the last mile, a category of entrepreneurs emerge who have credit needs that fall well outside the range of microfinance loans (median loan size was approximately USD 500). Their average productive credit ticket size also happens to fall under the typical lower end loan ticket size (approximately USD 8,250) that is catered to by even women-focused 'impact' registered credit financial institutions (Non-Banking Financial Company or NBFCs).

With an increase in borrowing by women entrepreneurs in the target loan ranges (USD 2,500 to USD 7,000), there appears to be a need for women focused credit products for productive work in this identified 'last mile' missing middle. This credit market is currently not served systematically. This study examines the use of risk insurance type blending instruments (guarantees, particularly) as enablers of scaling of market driven credit access to this specific category of women entrepreneurs, despite the current level of perceived risk of lending to them, and a dearth of directly comparable market models.

1.2 Studying Use of Blended Instruments to Successfully Empower Women Financially Through Entrepreneurship is the Main Driver for the Significance of this Study

Guarantees in blending are widespread in driving private capital for "development" based sectors in India. However, despite their prevalence in the Indian blended finance landscape, and the deployment of guarantees within it, their use for market making in specific loan ranges for women microentrepreneurs has not yet been made mainstream.

There is an abundance of literature on the creditworthiness and low delinquency of women borrowers in the microfinance space. There is a lack of similar literature in the last mile "missing middle" as defined for the purposes of this study—a growing segment of borrowers at the last mile, largely because the market perception of lending to these areas remains 'high risk'. There has also been a dearth of experiments in this space—pointing to the reluctance of market participants, including that of blended finance stakeholders, to build market evidence to bridge this gap.

At the same time, we know that investing in women has manifold benefits in terms of inclusion. This could well be the need of the hour, if driving social impact is a key objective, considering the increasing income divide across the globe, and especially in India. This study is of significance in uncovering more insights about the critical gaps in using risk mitigating instruments to crowd more investment in credit to women with livelihood generating microenterprises in the specific loan range of USD 2,500 to USD 7,000.

1.3 Objectives of the Study

Through this study, we largely aim to identify how the use of blending, using risk-insurance based instruments (instruments enfolding some form of guarantees) can serve as initial risk capital to eventually unlock market driven productive credit for last mile women entrepreneurs.

[5] Non Banking Financial Corporation (a regulated entity, primarily involved in lending), which takes on credit for a higher risk profile that banks may traditionally not take on.

[6] Approximately INR 200,000 to INR 600,000.

[7] Women borrowers' proportion in the Kishore category (loan range of USD 590 to USD 5900) of MUDRA loans, as evidenced by 21% of all borrowers being women in 2021-22, vs 2% in 2015-16.

[8] Approximately INR 200,000 to INR 600,000.

Thus, this study aims to understand how guarantees as instruments of blending can be used to offset risk in lending to women entrepreneurs. On one front, we chronicle cases and models of guarantee-based blending, in the Indian context. On the other hand, we dive into understanding who the target women entrepreneurs are, from deriving a market size for a credit opportunity to her persona, entrepreneurial acumen, which type of businesses ('value chains') she is likely to be found in, and so on. We further attempt to understand the nature of perceived risk in lending to her, and the type of guarantee-based instruments (and stakeholders) may be required to demonstrate the success of the proposed model. We also attempt to ideate the potential barriers in market level scalability of the ideal credit product.

The following segment examines literature related to blended finance with a specific focus on guarantees, credit and loan based financial inclusion and availability to women micro and small entrepreneurs.

2. Literature Review

2.1 Overview of Literature - Guarantees

2.1.1 What we Know of Guarantees as Instruments of Blending

2.1.1.1 How Guarantees Work

Blended finance is defined as "catalytic capital from public or philanthropic sources to increase private sector investment in developing countries to realise the Sustainable Development Goals (SDGs)." It offers a way to fund interventions which are necessary but still highly risky for private capital, by using philanthropic capital as leverage.

Guarantees are a type of blended finance instrument that is most market friendly, and has contributed the most to unlocking private capital (OECD, 2021). Guarantees typically involve three parties: the guarantee holder (the investor or creditor), the guarantor (patient capital provider in the case of blending), and the investee. First, the guarantor establishes a formal agreement with the party holding the guarantee (investor). Second, they create a separate recourse arrangement with the investee. The guarantee holder typically compensates the guarantor through fees, which reflect the level of risk being assumed. If the guaranteed risk materialises, such as when a borrower defaults on their loan, the guarantor steps in to cover the payments that the client failed to make to the guarantee holder. This creates a risk-sharing mechanism where a guarantor provides security, a guarantee holder pays for this protection, and the receiver of the guarantee ('the client') has obligations to both parties. The guarantee instrument becomes active, or is used only when a risk event occurs.

This arrangement helps reduce risk for the guarantee holder while ensuring the guarantor is compensated for providing this protection. The recourse agreement also helps manage the guarantor's exposure by establishing their rights in relation to the client.

2.1.1.2 Guarantees can be Deployed at Multiple Levels, and Can be Structured in Different Ways per the Risk Appetite of Involved Stakeholders

Within blended finance, guarantees can be made effective at various levels as well. At the fund level, philanthropic or concessional capital can be embedded alongside full return private capital. This patient capital can be used to enhance credit through guarantees or insurance at company (investee) level. Further downstream, this patient capital can also be invested through specific projects that need to attract private capital, or portfolio or credit line level guarantees to credit financial institutions on-lending to SMEs.

Guarantees are typically structured in a number of other ways as well, largely to distribute risk and incentivise the parties involved. Such structures include pari-passu (equal risk sharing), first-loss default guarantee (for higher-risk investees), portfolio guarantees (mentioned before as the second level guarantees when blending, typically used for programmatic interventions), and more.

2.1.1.3 Guarantees are More Frequent in the Financial Services Sector than Other Sectors

In 2023, 55% of financial services blended deals globally incorporated guarantees or risk insurance, surpassing the 34% market-wide average (Convergence, 2024). Even as other types of blended finance instruments such as grants, outcome funding (bonds, etc.), concessional equity and debt, all continue to grow marginally faster, guarantees and risk mitigating blending instruments used in the studied financial services blended transactions grew from 33% in 2018–2020, to 44% in 2021–23 (Convergence, 2024).

2.1.1.4 In India too, Guarantees were More Prevalent as Instruments of Blending than Others

In India, guarantees have been the preferred mode of financing. One in every two closed blended finance transactions in India was some form of a guarantee instrument (Asha Impact, 2023).

Of the 180 transactions in India analysed by Asha Impact, about 24 used some form of guarantees or risk insurance. While these are derived from the paper documenting blended finance transactions, they likely cover only a small segment of all guarantee-based blending that would have occurred during this time.

Table 1: Illustrative list of guarantee-based transactions in India

Sr. No.	Deal Name	Year	Guarantee Type	Size	Guarantee %	Guarantee Provider	Implementation Partner	Sector	Women Focus
1.	WSPF (Water and Sanitation Pooled Fund) Tamil Nadu	2002	Multi-layered	$6.2M	Partial	USAID	13 municipalities	WASH	No specific women focus
2.	Karnataka WSPF	2005	Partial Credit	$15M	50%	USAID	State municipalities	WASH	No specific women focus
3.	WaterCredit	2005	Multiple	$855M	Not specified	Multiple	Multiple banks & MFIs	WASH	No specific women focus
4.	Rabo Full Guarantee	2013	Full	$0.07M	100%	Rabo Foundation	NBFCs	Financial Services	No specific women focus
5.	Northern Arc Pooled Bond	2014	Common	$450M	Not specified	Northern Arc	80+ originators	Financial Services	No specific women focus
6.	Citibank Women Entrepreneurs	2015	Partial	$10M	Partial	OPIC	Ujjivan Financial	Financial Services	Yes - Exclusively for female urban microentrepreneurs
7.	USAID-USDFC Multi-sector	2015	Pari-passu	$45M	50%	USAID, USDFC	Impact NBFCs	Multiple	No specific women focus
8.	USAID-USDFC Healthcare	2018	Pari-passu	$10M	50%	USAID, USDFC	NBFC	Healthcare	No specific women focus
9.	Sindicatum Renewable	2018	Full	$35M	100%	Guarant-Co	N/A	Energy	No specific women focus

[9] in the case of energy or infrastructure projects

Sr. No.	Deal Name	Year	Guarantee Type	Size	Guarantee %	Guarantee Provider	Implementation Partner	Sector	Women Focus
10.	USAID-USDFC WASH	2019	Pari-passu	$82M	50%	USAID, USDFC	Private bank, NBFCs	WASH	No specific women focus
11.	USAID-USDFC Forestry	2019	Two-tier	$15M	Not specified	USAID, USDFC, Rabo	NBFCs	Climate Action	No specific women focus
12.	USAID-USDFC Clean Energy	2019-21	Pari-passu	$138M	50%	USAID, USDFC	Private bank, NBFCs	Energy	No specific women focus
13.	Rabo Portfolio	2019-20	Partial	$11.6M	Not specified	Rabo Foundation	NBFCs, Banks	Agriculture	No specific women focus
14.	IIX WLB 3	2020	Portfolio	$12.5M	Not specified	IIX	Kinara, Centrum	Financial Services	Yes - Focused on women-owned small businesses
15.	Dell-Caspian	2020	Partial Risk	$20M	20%	Dell Foundation	Caspian Debt	Financial Services	No specific women focus
16.	Villgro Loan	2020	First Loss	$0.26M	Not specified	Lemelson Foundation	Caspian	Agriculture	No specific women focus
17.	SAMRIDH Healthcare	2020	Multiple	$350M	Not specified	USAID	IPE Global	Healthcare	No specific women focus
18.	USAID-USDFC AgTech	2021	Partial	$55M	Not specified	USAID, USDFC	Impact NBFCs	Agriculture	No specific women focus
19.	USAID-USDFC COVID	2021	Pari-passu	$150M	50%	USAID, USDFC	Private bank	Financial Services	Yes - Women-owned SMEs
20.	CIIE FinTech	2021	First Loss	$1.6M	Not specified	360 One Foundation	NBFCs	Financial Services	No specific women focus
21.	Labour Dignity Bond	2022	FLDG	$0.27M	70%	MSDF, Acumen	Gromor Finance	Financial Services	No specific women focus
22.	IIT Delhi-360 One	2022	Partial Risk	$0.5M	30%	360 One Foundation	NSDC	Livelihoods	No specific women focus
23.	Women FPOs	2022	Partial	$11.25M	Not specified	Confidential	Confidential	Agriculture	Yes - Exclusively for women-led FPOs and enterprises
24.	Climate Smart Fund	2022	Partial	$3.6M	Not specified	Confidential	Confidential	Climate Action	No specific women focus

Some themes about guarantee usage across the studied 180 blended finance deals in India are emergent. We call these out to identify any potential trends in structuring guarantees in India.

Majority of the deals appear to have been conducted in the financial services sector. One of the more frequently used structures was pari-passu (all parties are treated equally, or bear equal risk). First-Loss Default Guarantees (or FLDGs) were more commonly used for smaller deals (Asha Impact). Next, multilayered guarantees were used in infrastructure projects, and a mix of full and partial guarantees were used in the energy and agriculture sectors.

We also noted a limited presence of domestic guarantee providers in these deals, with most guarantors being international foundations or DFIs.

2.1.1.5 Blending with Guarantees to Target Women in India Largely Missed the Mark on Enfolding the Last Mile Missing Middle, Documentation and Thus, Scalability

Most important to note was that only a handful of guarantees focused specifically on women beneficiaries. Even those that did focus on women (beneficiaries or entrepreneurs) may have missed the mark on including the smallest survivable women-run microenterprises, in the range defined and identified in this report as the Last Mile Missing Middle of women microentrepreneurs. We surface this by examining the four deals documented in the report.

The earliest blended finance deal documented was a USD 10 million loan facility disbursed by CitiBank to (women) Ujjivan Financial Services (MFI) for its (women) microfinance customers. This deal was guaranteed (partial guarantee) by the international DFI—Overseas Private Investment Corporation (OPIC) for CitiBank, which then on-lent it to Ujjivan. The beneficiaries of this were urban microentrepreneurs. The end goal for this loan was to help women microentrepreneurs grow their businesses, hire employees, among other objectives. We now know that not all microfinance beneficiaries will utilise an MFI loan towards productive business use. There is limited data available on how microentrepreneurs with tangible businesses were distinguished from women loan beneficiaries, who used the capital for consumption purposes by way of scalable utilisation examination. Further, there is limited data available on cases of entrepreneurs with active, tangible businesses actually running these businesses (in contrast with her male counterparts of the household running the business). Furthermore, loan amounts offered under microfinance are well below the quantum of capital that can make a meaningful difference in hiring employees in an already small microbusiness.

The second case with IIX Women Livelihoods Bond 3, a portfolio and guarantee of USD 12.5 million provided via a special purpose vehicle based in Singapore, and channelled to over 2,500 women owned small businesses via Kinara Capital and Centrum Capital in India. By way of financial structuring, bonds were sold to international accredited and institutional investors through IIX's investment banking partners, and proceeds were lent to underlying entities. The essential scalability challenge in this case was the lack of categorising women borrowers by their target loan amounts. This data is unavailable, and thus, comments cannot be made about whether the last mile missing middle of women microentrepreneurs were indeed intentionally included in this experiment. As we have documented in findings further down into the document, impact NBFCs' portfolios typically are concentrated with higher ticket size loans, with the starting loan ticket size being USD 8,250 and onwards. This is much larger than the identified loan size for the last mile missing middle women microentrepreneurs.

In the case of guarantees involving women FPOs (2022), a portfolio guarantee of USD 11.25 million was partially guaranteed, with women entrepreneurs and farmers, women-led enterprises in upstream agri-value chains including farmer producer organisations (FPOs), agri-tech businesses, community-based organisations (CBOs), and agri-SMEs were targeted. The guarantee was provided by an international foundation. Here again, documenting the size of businesses that were actually given credit, the actual credit amount, and further control for identifying which value chains within agriculture featured women-run businesses.

In the USAID-USDFC COVID Response Partial Credit Guarantee (2021), a USD 100 million facility was channelled via an unnamed private bank via a 50% pari-passu partial guarantee. SMEs which were women owned or had women-loan signatories, wherein women were primary decision makers were the target beneficiaries. Here again, a lack of documentation of types of value chains, actual loan amounts, success in terms of repayment (or utilisation of the guarantee) seem to be missing.

Overall, an understanding of the value chains where the woman entrepreneur is involved in (so as to understand the cash flows and build better loan products), ensuring the woman entrepreneur is indeed the driving force behind the business, that the target last mile woman microentrepreneur has been selected correctly (identified by value chain, and by loan amount), and documentation of utilisation is missing, no scalability inferences can be drawn.

[10]Highly simplified, FLDG is a a financial arrangement that protects lenders from losses if a borrower defaults on a loan.

[11]This subsegment is defined more exhaustively further in the report. The last mile missing middle is defined as women microentrepreneurs with credit requirements ranging roughly between USD 2,500 to USD 7,000. They are more frequently observed in value chains like dairy, fisheries, kirana shops to beauticians across rural and urban India, operating as microentrepreneurs.

From the primary interviews, the following type of guarantee transactions were uncovered and recorded:

- **Non-First-Loss, Partial Guarantee for Agriculture Sector Application:** Term loans of up to INR 1 crore used for lending to agriculture businesses (through an impact investing fund intermediary) were guaranteed by a well-known Dutch multinational banking entity. The arrangement was structured in such a way that any losses that occur after the first loss would be covered up to 30% of the outstanding amount of the credit line, and guaranteed to the impact fund intermediary by the development capital provider.

- **Partial Risk Coverage in the EV Sector for Low Income Users:** Under the Electric Vehicle Risk Sharing Program (EVRSP) designed by an India based global social and development consulting organisation (unnamed on request), access to two and three-wheeler EVs was enhanced. The development capital providers were select foreign multilateral development banks (MDBs) and bilateral banks, extending a combined capital of USD three million to the Indian DFI such as the Small Industries Development Bank of India (SIDBI), which acted as the private capital deployer in this blending arrangement. This capital acted as a sovereign guarantee. The end beneficiaries were low-income vehicle loan borrowers of two and three-wheeler electric vehicles. The risk in this transaction came not just from the perspective of the customers of the target NBFCs (low-income borrowers), but also from the underlying asset that was being purchased—EVs, which had a limited market proof. The terms of the guarantee involved SIDBI guaranteeing a segment of the portfolio for specific NBFCs' EV lending portfolios. This guarantee ensured that borrowers seeking to buy vehicles for productive use, having sub-optimal credit history and outlook (because of limited ability to make a downpayment for this vehicle) could still be able to access the EV loans. Because of a near 90% loan to value for all borrowers, lending to this category is not market viable without this underlying partial risk sharing guarantee.

- **Guarantees in the Cleantech and WASH (Water, Sanitation and Hygiene) Portfolio:** Term loans under cleantech and WASH sectors were guaranteed against Non-performing Assets (NPAs) pari-passu (losses shared 50–50) by the development capital provider—a well-known US entity DFI, and the impact fund intermediary lending to businesses in these sectors. If recovery was done for the underlying credit line, the impact funds would retain any profit margins.

- **Full Guarantee for Idea Stage Impact Businesses:** In a guarantee, wherein the development capital was provided by an unspecified DFI, the intermediary impact capital deploying intermediary was able to offer loans of up to USD 65,000 to 'impact' businesses in all sectors, across early stages (from idea through post revenue stages), guaranteed by a full coverage in case of delinquency.

- **Using Grants as Collaterals to Incentivise Private Sector Participation in Blending Guarantee Instruments:** A for-profit infrastructure global fund deployed risk capital through an Indian Foundation located in Delhi. The terms of this guarantee involved impact enterprises (all sectors) with high(er) risk business models, accessing working capital credit through an impact fund intermediary. The profit-motive impact intermediary was incentivised to participate in the transaction because of a grant provided by the development capital provider. The selected (through impact fund level selection criteria) impact enterprise was able to access (working capital) loans of up to 2x of the underlying grant (a 'fixed deposit', as it was called by the interviewee from the debt fund), which served as collateral in this transaction. The repayment period ranged from one to two years. If the impact enterprise was able to repay its obligations to the impact (debt) fund, the enterprise could use the FD, or renew their loan. This was deployed within the health tech devices impact enterprise at a time when the business' revenues were stalling in the COVID years. The enterprise was able to successfully repay its loan.

2.1.2 Drivers and Criticisms of Use of Guarantees (Including in Scenarios of Lending to Low-Income (Women) Customer Portfolios)

Guarantees are market friendly blending instruments suited to crowding in more (private) capital in high-risk sectors, geographies, and business models. They optimise the requirement and deployment of public capital by allowing the pervading of private sector capital. Some drivers identified from literature include:

- **Mobilisation of Private Capital:** Among blended instruments, guarantees have historically mobilised most private capital. In India, their use has also grown the fastest (Asha Impact, 2023). Globally, the total quantum of private capital mobilised through guarantees increased from USD 8 billion in 2012 to USD 18 billion in 2018.

- **Flexibility and Customisation Potential:** Guarantees represent a highly flexible instrument class, allowing for a multitude of use cases. They are capital efficient

[12]Represent 50% of all deals studied.

because of no upfront monetary requirement (unless in case of default), and allow for high leverage ratios of up to 30–40x (Asha Impact, 2023). They are widely adaptable, and can be structured to blend with instruments like debt or equity as needed, allowing for a wide mix and range of risk appetites (pari-passu, first-loss, partial/full coverage), and can be layered with other tools. They are also easier to implement, as they work well within existing financial ecosystems. Their flexibility allows for the customisation of development capital sources (examples: bilateral sources, multilateral development banks, development finance institutions), private capital (examples: debt from banks and other financial institutions, equity), and guarantee mechanisms (examples: first loss, partial, collateralised). This flexibility allows guarantees to be applied in varied use cases, from different sectors (agriculture, livelihood, water, and sanitation) and contexts, by allowing stakeholders to determine and deploy capital in accordance with their risk tolerance and development objectives. The adaptability of guarantees extends to their pricing, duration, coverage scope, and conditions, allowing them to incentivise their private sector partners adequately to scale availability of development capital.

- **Additionality in Development Outcomes:** Deployment of guarantees aim to plug the funding vacuum faced by an underlying 'unbankable' entity, including those with typically a high impact score. Further, guarantee schemes which are publicly supported targeting low-income and underserved markets serve to create market information that further supports the development of innovative guarantee instruments.

There are also a few risks and downsides associated with the use of guarantees.

- **Market Distortion Risk:** Application of concessional guarantee coverages on credit portfolios without ensuring a need for the same. In some cases, there may be artificial market conditions created using guarantee-backed structures for crowding in capital, where none may be needed.

- **Limited Focus on Impact:** Guarantees focus on attracting and crowding in more private capital, while tracking and ensuring impact may often take a backseat.

- **Sustainability Issues and Dependency Risk:** There is a lack of 'sunset clauses' for guarantee-based projects. A long-term dependency on guarantees could materialise instead of development of target markets because of this.

2.1.3 Barriers to Use of Guarantees (Including in Scenarios of Lending to Low-Income (Women) Customer Portfolios)

While guarantees are the most market friendly blending instruments, there are several barriers that have prevented its adoption for the purposes of servicing specific categories of high-risk underserved borrowers.

- **ODA Eligibility of Guarantees:** The Organisation for Economic Co-operation and Development's (OECD) Development Assistance Committee (DAC) is the body responsible for defining and regulating the application of capital as 'development finance', categorised under the official development assistance (ODA) guidelines. Currently, guarantees are not categorised as ODA, thereby limiting the DAC's committee members, bilateral aid agencies, to use guarantees. This limits the flow of development capital from bilateral sources towards guarantees focusing on specific interventions.

- **Lack of Incentives for MDBs to Develop Guarantee Instruments:** MDBs, a significant source of development funding required for blending into guarantees, are restricted in their deployment of guarantees due to their internal accounting rules (Lee, Betru and Horrocks, 2018; Humphrey and Prizzon, 2014; Ramanujam Bandura, 2019). Rules require MDBs to provision for guarantees in the same way as they would direct loans. This is challenging as guarantees are seldom called, and are unfunded. Furthermore, rating agencies for these banks disincentivise engaging in blending via guarantees in favour of direct lending, because of the way performance metrics for these are structured (Lee, Betru and Horrocks, 2018). In addition, the Basel regulations require MDBs to maintain a certain amount of high-quality liquid assets. SDG-aligned guarantee instruments are currently not categorised as one of such assets.

- **Complexity and Cost of Guarantees as Instruments:** Since guarantees introduce a third participant in capital provision—a private capital provider, it often leads to complexity in the instrument. In most cases, there will be guarantors with widely varying risk preference. With the introduction of a guarantor aside from a lender and borrower, the process of legal and financial due diligence becomes extended, often conducted by more than one party. Furthermore, due to the lack of standardisation of guarantee products, participants spend more time on negotiations. Ensuring consensus between all parties as the instrument is developed and deployed can often be a lengthy process rife with friction, thus increasing transaction (legal) costs (GIIN, 2017). Structuring guarantees at scale requires specific skill sets in development organisations that are leading structuring. Commercial and financial skill sets, including an ability to model and assess risk, structure deals, manage portfolios and stakeholders, and develop pipeline, are yet to become mainstream in development organisations (Lee, Betru and Horrocks, 2018), serving to limit the scale of guarantees deployed as instruments within more underserved sectors and business models.

- **Measuring Impact:** While deploying guarantees has an immediate impact on a high quantum of capital for development related projects like reducing investment risk, enhancing access to finance, improving lending to low-income and underserved segments, it is tougher to measure its "expected" and "intended" long-term development related benefits. Thus, measuring the amount of market level capital subsequently unlocked (after the deal) because of the deployment of the original guarantee backed transaction, or additional impact (for example, the reduction in poverty or improvement in the quantum of livelihood through job creation) is difficult to measure. Further, because of complex structuring and delivery of guarantees, transparency related to measuring impact (vs. outputs or outcomes—different but aligned with more longer-term impact) varies due to governance and monitoring patterns downstream.

- **High Costs of Blending:** As blending via guarantees is directed towards low-income borrowers in the missing middle range, there is an immediate implication of high operating costs, and comparatively lower returns, traditional guarantees may not be sufficient for enhancing market viability, especially in models which have not yet been proven. Given that 'impact' lending to women is concentrated in microfinance, or in loan sizes which do not include product suite for the 'missing middle', there are limited models of credit being deployed. Aside from a high operating cost, such a lack of standardisation further adds to the cost of blending.

- **Lack of Inclination of Domestic Philanthropic Sources Towards Blending Capital via Guarantees Domestically:** A lack of awareness, inclination, and absence of capacity building to include structuring guarantees as development capital limits domestic philanthropic capital in India. Of the 180 blended finance transactions studied, Indian philanthropic sources and non-government organisations (NGOs) contributed the smallest proportion (4.6%) of transactions across organisations (Dua, Chauhan et. al, 2023). This is likely because of the resource intensive nature of structuring a guarantee, typically requiring significant assets and institutional capacity. In India, guarantees are already heavily used in spaces where the business model and underlying cash flows (for end intermediaries) are known and understood, limiting their use to very few models in climate and agriculture-based business.

- **For-Profit Entities Lead Blending in India:** The study of over 180 blended finance transactions, a third of which are constituted by guarantees, was driven by NBFCs and banks. Due to their for-profit motive, and strict regulatory requirements needing provisioning, expansion of such guarantees driven by the main participants of blending of guarantees in India, have not yet been deployed in the low-income women borrower communities in the missing middle. They continue to stay concentrated in sectors which are relatively low risk, involve lower operational and structuring costs and bigger margins, given the limited scale of deployment.

2.2 Overview of Literature—Credit to Women in the Missing Middle

2.2.1 What We Know about Women in the 'Last Mile Missing Middle'

The missing middle are defined by Convergence Capital as "Small and Growing Businesses (SGBs) are commercially viable firms with growth potential yet, they typically encounter fundraising challenges because they are too big for microfinance, too small or high-risk for larger commercial banks, and could be unsuitable for venture capitalists." Applied to the context of women in India, the last mile missing middle translates to women-owned micro and small businesses which are within very specific value chains, from dairy, fisheries, kirana (corner/convenience) shops to beauty salons across rural and urban India. In terms of credit requirements, the missing middle translates to a required loan range between USD 2,500 to USD 7,000.

The last mile missing middle has a large overlap with "Women Owned Very Small Businesses" or WVSEs, a subcategory of the women-led MSMEs in the missing middle (IFC, 2023). While the credit requirements for the last mile missing middle range between USD 2,500 to USD 7,000, the WVSEs fall within the loan eligibility range of USD 2,700 to USD 13,600. While not all attributes may match, here is the research available on this category of women microentrepreneurs closest to the last mile missing middle.

The credit for setting up and working capital required for such businesses continues to be high cost, and difficult to acquire because of high-risk perceptions. Women owned enterprises in India face a credit gap of USD 158 billion (Indifi Technologies, 2022). They

[13]Guarantees unlocked an average of about 2.5–3x leverage of capital deployed (Asha Impact, 2023)

[14]These were chronicled later in interviews with stakeholders involved in guarantees that helped extend credit for purchase of agri commodities from smallholder farmers, and vehicle (3-wheeler, solar powered) purchase credit guarantees.

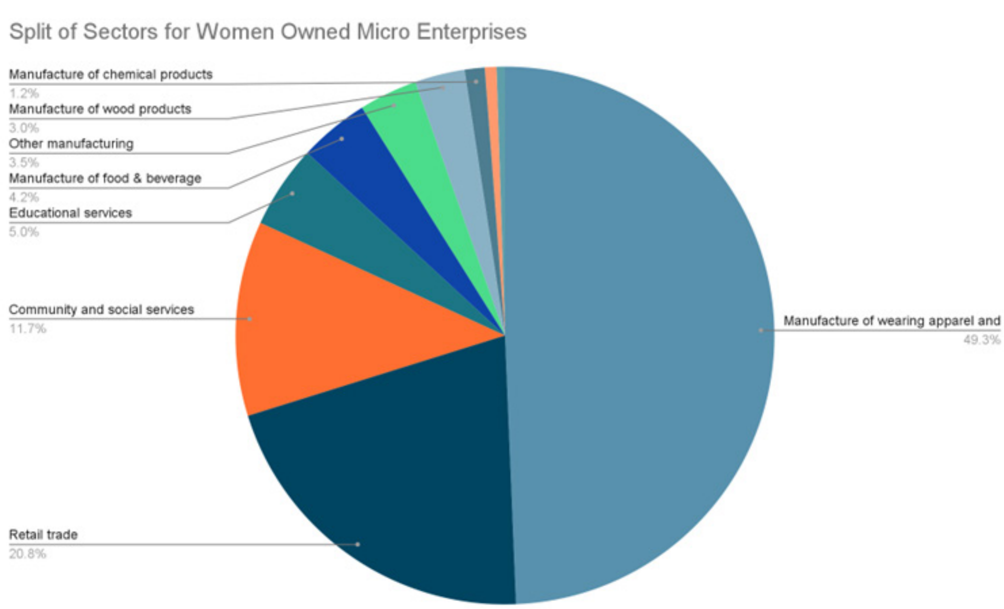
need to self-finance or find funds through informal channels as "banks and other financial institutions remain unsure" of business models or guaranteed returns on loans, in part because of their lack of asset ownership that can be used as collateral. This is exacerbated by a lack of risk appetite and willingness towards mainstreaming guarantee-based credit lines to the missing middle, beyond the token instances chronicled by literature.

Lending to women in this category checks a number of SDGs (SDGs 1, 3, 4, 5, 6, and 9), thereby underscoring the deep nature of impact.

2.2.1.1 The Market of Last Mile Missing Middle Women by Sectors is Dominated by Manufacturing and Trade

There is a dearth of research on the last mile missing middle women microentrepreneurs (or even WVSEs). In this study, we take a look at the sectors of entrepreneurship ('value chains') operated by women, registered as microentrepreneurs. About 21% of microenterprises in India are owned by women, amounting to approximately 15 million microenterprises (Ministry of MSMEs, 2020). Of these, 62% were in manufacturing with clothing and textile being the largest in this sector, 21% in trade, and 17% in services. In effect, we are taking gender-disaggregated data about women microentrepreneurs in the country as a proxy to understand the landscape of the last mile missing middle (and WVSEs) in India (IFC, 2023).

Figure 1: Split of women owned microenterprises in India by sectors of operation



Of these 15 million microenterprises, about 18% (almost four million enterprises) were estimated to be WVSEs (IFC, 2023). Conservatively, about 9% of these, almost two million enterprises, could thus be thought of as the last mile missing middle.

2.2.1.2 Credit Requirement of the Last Mile Missing Middle Ranges Between USD 3.5 billion to USD 6.8 billion

The aggregate debt requirement for WVSEs in India was estimated at USD 11.4 billion. Considering that the last mile missing middle constitutes only a segment of this market, it could be valued at USD 3.5 billion or up to USD 6.84 billion.

About 70% of this capital is required as working capital, while the remaining is required as fixed assets (IFC, 2023).

2.2.1.3 The Last Mile Missing Middle Microentrepreneur is an "Optimistic Influencer"

The definition of the last mile missing middle women entrepreneurs corresponds with microentrepreneurs whose loan requirements fall within the range defined. Credit ticket sizes in this space reflects amounts borrowed by women who have officially graduated from the MFI loan cycles, wherein loan amounts range between USD 500 to USD 750. That said, microfinance may not actually be effective in helping them move towards entrepreneurship; instead, it is more commonly used to manage household liquidity (Khaleque, 2011). Interviews with lenders to the last mile missing middle indicated that only about 20% of MFI borrowers will ever graduate in productive loan cycles successfully.

A research study conducted with over 1000 rural respondents across Jharkhand, Bihar and Madhya Pradesh, revealed four personas of women, grading them by their level of financial empowerment by way of actual interaction with formal financial products. Of these, the most financially literate and empowered was the "Optimistic Influencer".

As revealed by this study, this persona of the female financial product user was largely between 26–45 years of age (78% of interviewed women), had a high level of agency (in both internal and external contexts), self-efficacy, works as an ASHA or Anganwadi Worker, or owns her own business like a "tailoring shop or kirana store". She is a decision maker at the household level, is educated, has high social capital and mobility, and engagement with formal finance.

[15]End ranges estimated as 35% to 60% of credit requirements of WVSEs. These assumptions are made on the basis of extrapolation on general credit requirements vs. eligibility proportion (typically greater than one for low-income or higher risk customers), and loan requirements and eligibility as known for the last mile missing middle and WVSEs respectively.

2.2.2 Evidence of the Increase in Market Size (and Demand) for More Suitable Credit for Women in the Missing Middle

Women represent the most underserved credit beneficiaries, yet are also one of the 'safest' credit customers for credit institutions. There are several drivers that indicate the unsuitability of microfinance in serving women in this category, and the lack of alternatives in its place.

Women in this segment are typically aligned with very specific productive work that in turn relates to very specific cash flows, which should ideally inform the structure of the loan product. For example, cashflow of an urban flower seller and a rural dairy owner are significantly different from how the repayment would be structured in line with their weekly earnings, to what the loan would be utilised for.

- **Growth in Financial Services Use of Blended Finance Targeting Women Beneficiaries in the Missing Middle:** Globally, the proportion of blended finance deals (including guarantees) targeting women have increased from 34% of deals in financial services to 54% between 2018–20 and 2021–23 respectively (Convergence, 2024).

- **Growth in the Kishore Category of MUDRA Loans:** In India, SIDBI is one of the key domestic development finance institutions deploying development capital with and without blending (through guarantees). One of its products includes the Kishore loan, ranging INR 50,000 to INR 5 lakhs, distributed under the Pradhan Mantri Mudra Yojana (PMMY). Under PMMY, loans disbursed are guaranteed by the Credit Guarantee Fund for Micro Units, and the loans are collateral free. While these are difficult to access, data from these still represents the growth trajectories of SME entrepreneurs' usage. These loans are meant to be used for income generating activities, with typical Mudra loans being business, working capital equipment finance, agri-allied activity-based loans. The rapid growth in the Kishore category reflects significant increase in demand for productive capital in the 'missing middle' range over the years, with the number of accounts increasing from about 2.07 million in FY 2015–16 to 11.09 million in FY 2021–22.

[16] The others were "The Passive Observer", "The Frustrated Fighter", and "The Indifferent Manager", in order of increasing financial literacy and product usage (Swadhaar, 2024).

[17] Requirement of larger loan sizes (alongside support in entrepreneurship training), overleveraging of MFI loans.

Table 2: Growth in Kishore Loans Through the Years

FY	% of YoY growth for accounts under Kishore (MUDRA)
2015-16	**FY 2016-17: 28.7% growth**
2016-17	**FY 2017-18: 74.7% growth**
2017-18	**FY 2018-19: 41.9% growth**
2018-19	**FY 2019-20: -2.0% growth**
2019-20	**FY 2020-21: 46.6% growth**
2020-21	**FY 2021-22: 16.9% growth**
2021-22	**FY 2016-17: 28.7% growth**

- **Growth of Participation of Women in Kishore Category of MUDRA Loans:** The increase in the number of women borrowers in Kishore loans has been trending upwards year on year. The loan range specifies a lower end of INR 50,000, which corresponds with the loan ranges available through microfinance. To a reasonable extent, growth in participation of women borrowers in this loan type (MUDRA loans are typically used for small businesses) and range (under INR 5 lakhs) points to women participating more in productive work, and borrowing in the "missing middle" range.

Table 3: Growth in Kishore Loans for Women Through The Years

FY	% of borrowers who were women
2015-16	**2% of women borrowers**
2016-17	**2% of women borrowers**
2017-18	**4% of women borrowers**
2018-19	**8% of women borrowers**
2019-20	**8% of women borrowers**
2020-21	**16% of women borrowers**
2021-22	**21% of women borrowers**

2.2.3 Barriers in Access to Credit for Women in the Missing Middle

Women-led micro and small enterprises are the most under-lent due to perceived risk. At the same time, lending to women led micro and small enterprises in representative value chains will turn the dial on deep social impact. Literature uncovers the following barriers in targeted credit access for women in the missing middle:

- **Higher Perceived Risk of Lending to Women:** While lending to women has been repeatedly proven to be low risk (Caire and Vidal, 2024), they continue to be perceived as high-risk borrowers. Women entrepreneurs in India face a rejection rate of 19% by lending institutions in India – more than twice the rate when compared to men at 8%. A higher interest rate is also imposed on women entrepreneurs for loans, once they are approved. Even when all other observable criteria are identical, women entrepreneurs are 30% more likely to need a guarantor. Added to this, men-led businesses generally raise more formal and informal venture capital compared to women-led businesses. For women entrepreneurs, microfinance loans and those through collectives or self-help groups have been the most common mode of accessing financial support. Women being perceived as high-risk borrowers is a problem that exacerbates in the missing middle range. This may in part be tied with women, especially in this category, lacking access to security collaterals required for loans (IFC, 2023).

- **Higher Operational Costs of Lending in the Last Mile Missing Middle Range:** While the MFI business model is well defined, with its operationalisation of guarantees via hypothecation of books, there is a vacuum in terms of similarly standardised guarantee models for 'impact NBFCs'. Impact NBFCs, as defined by the Indian Impact Investment Council publication, is: "NBFCs with a portfolio size of <INR 5,000 crore and BoP (Bottom of the Pyramid) clients >75% of the portfolio". The proportion of impact NBFCs to total NBFCs as of 2021 is less than 4%. Given the availability of guarantees as an instrument available to NBFCs due to its customisability, this low proportion reflects a high-cost component of lower ticket sizes and concomitantly high operational costs. For the Last Mile Missing Women category with loan sizes smaller than all other lending categories, this may be a particular challenge, even within Impact NBFCs. While women and missing middle focused impact NBFCs do have loans within the ticket sizes relevant for this study, literature comes up short in terms of finding the exact split of the portfolio in value and volumes of the smaller, sub-INR 10 lakh loans.

Table 4: Ticket Size Range of Loans from Impact NBFCs

(Impact) NBFC	Ticket Size Range (in INR Lakhs
Kinara Capital (HerVikas program)	**INR 1 lakh to INR 30 lakhs**
Vistaar Financial Services	**INR 50,000 to INR 25 lakhs**
Aye Finance	**INR 50,000 to INR 25 lakhs**
Veritas Finance	**INR 1 lakh to INR 15 lakhs**
Shriram City Union Finance	**INR 1 lakh to INR 50 lakhs**

- **Lack of Data Related to Gendered Work at the Last Mile:** One of the most crucial challenges in building suitable credit products for women borrowers (including in the missing middle) is the lack of gender disaggregated data. Data is crucial for developing refined underwriting and credit risk models. Further, within the missing middle, it is crucial to take into account women's source and time of earnings, as well as their relationship with spending, which inevitably includes management of household expenditures, alongside working capital required for productive work (IFC, 2023).

2.3 Gaps in Literature

Due to the very specific scope of this research, there are a number of points where literature remains inconclusive:

- **Disaggregated Data Related to the Use of Guarantees in the Indian Context:** While information is available about blended finance and guarantees, as well as the split of transactions by the sectors they have been applied in, this data is not further disaggregated by the type of financial instruments (debt, equity, or some combination), quantitative categorisation for type of financial instruments (for example, ticket size for debt), and finally, by way of gender disaggregation.

- **Shrouding of Exact Regulatory Environment for Deploying Guarantees:** It is hard to gauge the full spectrum of the type of regulations that apply to or limit deployment of blending via guarantees, both in the context of philanthropic capital sourced from international sources (DFIs, bilateral, MDBs, other), and domestic sources, as well as the specific regulatory concerns applying to credit deployment using guarantees, via non-banking financial companies. This is because of the lack of detailed instrument development notes available in literature, specifically within the Indian context.

- **Specific Instances and Motivations of Friction Between Stakeholders of a Guarantee:** While literature suggests differing objectives and risk appetites of participants of a guarantee instrument structuring leading to differences, extended timelines and high legal costs, literature fails to uncover cases documenting motivations of specific type of funders and case studies.

- **Disaggregation of Loan Data:** Disaggregation of missing middle category suited loan volumes and values as a (1) proportion of the total loan book, and (2) gender disaggregation within this split, in specific well-known impact NBFCs is crucial to understanding the state of this ecosystem, but remains unavailable in literature.

- **Barriers in Adoption of Guarantees for Development Using Domestic Philanthropic Capital:** Given the barriers in effective flow of blended capital by way of guarantees in credit to women in the missing middle in the country, it is difficult to identify from literature the exact barriers to adoption of blending towards this using domestic philanthropic capital.

2.4 Importance of this Research

Literature around guarantees, and their use in the development sector has existed for some time. While this highly customisable tool exists, why is it not being applied in the development context of women in the missing middle in India. Under ideal conditions, there should be at least one proven instance of deployment of (some form of) guarantee to risk-minimise a credit line via an impact NBFC lending very specifically to (1) women, (2) for productive purposes in a micro or small business in a particular value chain, and (3) in the (last mile) missing middle.

While guarantees, and lending to women at the last mile are commercial successes in their own right, what prevents them from being deployed together, especially when there is potential for one catalysing the other to orchestrate deep and last developmental impact?

This research aims to identify and build on empirical evidence on scaling the use of guarantees for deep impact on women in the missing middle segment.

3. Research Study

3.1 Research Questions

This section enlists research questions that this study focuses on.

- Market Assessment of Last Mile Missing Middle Women Entrepreneurs
    - What is the current size, growth, and credit market (with a focus on specific ticket size range)?
    - Which value chains are these women currently a part of, and which of these are most ready for credit expansion? What is the rural-urban distribution of this demand?
- Existing Models and Infrastructure
    - What successful blended finance and guarantee models are currently operating in India?
    - Which underwriting models have proven scalable across different segments?
    - What types of intermediary institutions are needed to efficiently deploy capital at scale?
- Risk and Cost Analysis
    - What are the primary drivers of high credit costs in this segment?
    - What risk mitigation instruments have been most effective?
    - Are there documented cases where initial guarantee-backed lending led to subsequent unsecured credit access?
- Scalability Focus
    - What are the critical barriers to scaling credit access in this segment?
    - Which existing models from other sectors or contexts could be adapted?
    - What institutional infrastructure is needed to support significant scaling?

3.2 Research Objectives

The objective of this study is to identify where gaps exist in the value chain flow of blended capital specifically towards derisking (and making viable by way of operational costs), lending to women in the missing middle needing productive capital within the range of INR 2 to 6 lakhs. It is also the intention of this study to identify models that have been deployed within adjacent, if not direct use cases, and propose a list of recommendations against the same.

Uncovering/Answering of these questions is structured in phases, with the first being literature review, the second being hypothesis formation, and finally, primary data collection and analysis.

4. Research Methodology

4.1 Research Design

The research uses an inductive approach, which creates general conclusions based on specific observations. This approach enables our research outcomes to be more exploratory and grounded in real-world observations, rather than being constrained by preconceived notions developed by the researcher and simply seeking data to validate those assumptions.

The main approach used in this study leans on primary research, by way of identification of the stakeholders of the rather unique financial ecosystems in India, within both the upstream and downstream groups for flow of capital that have been defined in the introduction, and overall experts within the ecosystem to validate questions.

4.2 Theoretical Framework

4.2.1 Literature Review

A conceptual framework was drawn up through a comprehensive literature review spanning individual components of the research (guarantees, lending, globally and then within the context of India). This review included study of academic literature, industry reports and other resources.

4.2.2 Developing Hypotheses

Hypotheses were derived from an initial understanding of women microentrepreneurship, and use of guarantees in market making in India, derived from literature review and preliminary insights from stakeholder interviews. These were further refined as more information was gathered and analysed through more stakeholder interviews.

- **Hypothesis 1:** There exists a large enough market to give credit to last mile missing middle women entrepreneurs for traditional credit market stakeholders to be interested.
- **Hypothesis 2:** Guarantee backed market making for credit to last mile missing middle microenterprising women, but is contingent on philanthropic intent.

4.2.3 Survey Design

Survey design followed the identification of the stakeholders who would be able to fill information gaps related to the proposed research questions. These can be summarised as perspectives on blending (through guarantees, within India), last mile gender focused lending (within the specific ticket size range, within India), and experts and practitioners with a point of view on the intended capital flow design (guarantees at a credit line or fund level, applied for credit within the specified target range ticket sizes for the intended borrowers).

4.2.4 Interviews for Qualitative Insights

Given the significant gaps emerging through literature review, interviews became the core basis to find or triangulate answers to specific research questions.

4.3 Sample Selection

4.3.1 Sample Design

From an initial analysis with the support of informed senior stakeholders of the ecosystem, sample selection became core to this research. Thus, ensuring that the sample included stakeholders who could help uncover individual and collective components of this research was essential. The profile of respondents reflects this choice.

4.3.2 Profile of Respondents

The research respondents are divided into the following entity types.

- **Philanthropic Capital Providers and Blended Capital or Impact Investment Experts:** To support the study, the goal was to identify and speak with representatives of philanthropic capital sources active within India (that is, they have deployed social impact capital via some form of blending, either directly or indirectly through intermediaries in the country). This also included blended capital experts who have been part of such structuring, and mission driven fund intermediaries (largely impact investors) who have enabled such guarantee-based blending at a portfolio level. Interviews were conducted with four such experts.

- **Practitioners and Experts:** For the purposes of this study, experts included entrepreneurs with specific exposure to both downstream and upstream components identified. This includes leaders in entities like fintechs, NBFCs and neobanks which have lent capital through structured lending models (in some instances, leveraging guarantees) to the target beneficiary group. An attempt was made to identify and include leaders and founders of businesses with a high-risk profile, who have accessed guarantees in the past, and subsequently been able to access market rate credit facilities. This also includes an interview with an impact NBFC to provide contrast with 'mainstream' impact credit lending market. Interviews were conducted with five such experts.

4.3.3 Tools and Data Collection

Interviews were the primary source of data collection. These were conducted in person, over phone or WhatsApp, and Google Meet Calls. The durations of these calls ranged from 12 minutes to over an hour. In some practitioner cases, the same interviewees were connected with for up to three rounds of interviews, once a certain gap in understanding had been identified and required further data gathering with these stakeholders. The meetings were not recorded. Instead, live notes were recorded, which were further used for manual transcription. The manual transcripts were coded through an iterative process.

4.3.4 Ethical Considerations

Interviewees were made aware of the purpose of this research. No recordings were made for any interview. The interviewees' identities have been kept confidential.

5. Key Findings and Analysis

5.1 Discussion of the Findings from Literature and Primary Research

5.1.1 Is There a Market Demand and is the Segment Growing?

As summarised in the literature review, this market represents a credit market opportunity of at least USD 3.5 billion. Contrary to popular knowledge about credit markets, last mile missing middle women micro-lending is a sufficiently large and growing market. This has been proven to some extent by the literature review. It was further confirmed by at least four practitioners. Women borrowers in the target class are growing. They can be segmented by way of the productive work ('value chains') they engage in, and where they are situated across both rural and urban areas.

At the same time, literature review indicates that the share of women borrowing (of this ticket size) is grossly inadequate in comparison with male peers, indicating an increase in demand.

5.1.2 Trends of Borrowers Related to Market Segmentation

Some trends observed in practitioners' interaction with the last mile missing middle microentrepreneurs have been summarised below. This summary attempts to draw certain patterns from the successful practice of lending to this target class by the interviewee practitioners.

- **Trust, and Technical Assistance for Derisking:** Women entrepreneurs in this segment have personas that are those of "the Optimistic Influencer". They are already leaders in their ecosystems, such as SHG, Anganwadi leaders, or subsistence farming or enterprising (kirana stores, clothing, trading, beauty/salon services, and so on). It is dedicated access to capital and entrepreneurship support that is lacking in their growth journeys. To make this category of entrepreneurs who have a high interface with informal finance (and little to moderate interface with formal finance) more bankable, technical skills are a crucial asset. This can more efficiently be imparted at the formal finance provider level, where there is a high requirement for exchange of sensitive personal information, money transactions that women microentrepreneurs may not be as comfortable with. Thus, at the practitioner level we have seen a deeper requirement of trust to be built with such customers. This was done more effectively by engaging with them to upskill them as well as provide access to capital.

- **Building Loan Products Inclusive of a Household Expenditure Component:** Women borrowers at the last mile, will always use a component of their loan for management of their household. "It is impossible to separate working capital from household expenditures—there will always be a small part of this productive loan that she will use to manage household liquidity. As her business goes well, there is a lower risk of household expenses causing issues with effective use of working capital" (Pon Aananth, Pinke Impact Investments—practitioners in rural lending). This should be taken into account in any and all loan designs. More research may be required to exactly quantify the proportion of loans taken for household expenditure management.

- **Value Chain-Based Underwriting:** Lowering the risk of defaulting implies working closely with the women and their respective businesses, and understanding the working capital cycles specific to each value chain for women borrowers. Because of this, borrowers' productive work is a significant data point required to underwrite.

- **Personas of Borrowers by Specific Value Chains, as Surfaced by a Rural Lender Loan Book:** Personas of women by value chains which were thrown up as a result of primary interviews with practitioners identified the following dominant value chain-based personas. These personas have been derived from interviews with a rural lending practitioner, Pinke Impact Investments in Tamil Nadu.

- **Rural Entrepreneurs**

  - **Dairy:** Dairy farming is prevalent in rural areas, with women managing substantial operations. For instance, a woman in Palakkad owns 15 milk animals, generating a significant monthly profit. Rural dairy entrepreneurs are often involved in direct cash transactions for their milk sales.

  - **Kirana Stores:** Small grocery stores are common in rural settings, serving the daily needs of the local population.

  - **Tea Shops:** These are staple establishments in rural areas, providing a gathering place and refreshments.

    - In rural areas, these could generate over 2,000 to 3,000 INR per day, effectively up to INR 10,00,000 per annum. Per the market definition of last mile missing middle, this layer forms the lower turnover segment of customers. These tea shops usually serve a simple range of products, primarily beverages and possibly small snacks or biscuits.

    - For a tea shop located on a highway, or in a peri-urban area having a more modern set-up with seating and a range of products, the revenue can reach up to INR 15,000 per day. These shops may offer a broader range of products, including packaged items and possibly a more extensive menu of food and drinks, catering to travellers who might be willing to spend more.

  - **Small Trading:** This includes individuals who might travel to urban centres to purchase goods and sell them in rural markets, often on instalment plans. This can involve clothing, lifestyle products, and other consumer goods.

- **Peri-Urban Entrepreneurs**

  - **Small Cloth Stores and Textiles:** These businesses are more prevalent in peri-urban areas, serving a community with slightly higher disposable income and access to a broader range of goods.

  - **Dairy and Kirana Stores:** Similar to rural areas but potentially serving a larger customer base due to higher population density.

- **Urban Entrepreneurs**

  - **Electronics Shops:** These shops cater to a more technologically engaged customer base and can include sales of high-value items like televisions, which might be seen as luxury goods in rural settings.

  - **Rental Services:** In urban settings, businesses might include rental services for goods for events, which is indicative of larger community activities and functions common in these areas.

  - **Trading:** Urban entrepreneurs might operate in higher cash flow businesses, such as large retail stores or specialised shops that cater to a diverse urban population.

Reasonable extensions can be made to value chains with similar working capital cycle, seasonality, and revenue profile for each region identified. For example, in urban areas, parallels can be drawn with, say a vegetable mandi/seller or kirana shop running women in urban areas.

These personas are also corroborated by secondary research (IFC, 2023), wherein it was found that a significantly large segment of last mile missing middle women entrepreneurs is believed to be situated in food and beverage manufacturing/service (dairy, tea stalls), textile and clothing lines, trading (kirana shops, urban high cash flow, rural small cash flow).

We assert that these very value chains represent an opportunity for piloting guarantees for collateral free productive capital to the last mile missing middle, assuming such enterprises are driven by "The Optimist Influencer" and similar personas, who typically enjoy the support and endorsement of their households, including the support of their male counterparts who may have assets that can be used, if needed, as collateral.

5.1.3 Established Underwriting Models That Can Be Quickly Scaled: Examples from the Dairy Production Value Chain

Currently, underwriting by a handful of the target NBFCs is resource heavy, and limited evidence of digitisation (of value chains they are built on) in existence. In the past such value chain-based digitisation and use of data for underwriting and reducing need for securitisation via collaterals has only been utilised by a handful of fintechs so far. Borrowing from literature review's surfacing of key sectors for women entrepreneurs, food and beverage value chains (tea stalls, small food stalls), clothing and textile (trade, manufacture), salon services (applied to both rural and urban microentrepreneurs), agri (dairy and fisheries as specific examples of more climate resistant sustainable cashflow generating value chains) are some value chains where women have been working for a while, practitioners have lent to these value chains, and therefore some predictability of data exists, in order to guarantee blending experiments in collateral free loan conditions. Similar parallels can be found in the case of lending for the purchase of electric vehicles documented in primary research above, wherein the loan amount can only be deployed to purchase the (EV) assets.

Let us examine the case of the dairy sector. Fintechs which use IoT (internet of things) sensors to collect data on herd size, milk production and quality over time, have been able to develop collateral-free and credible underwriting models used for dairy loans to cattle farmers. Stallapps, a fintech company which has worked with regulated lenders in the country to enable cattle farmers to access dairy loans, is a prime example of such a model. They rely on data points which measure milk quality, regularity of milking of cattle assets, and so on, to underwrite loans alongside their NBFC credit partner(s).

To make such a dairy-sector based model directly comparable to our use case of the last mile missing middle of women microentrepreneurs in the dairy sector, we may have to acknowledge many differences. First, the herd size will be much smaller: our target women microentrepreneurs are women who may already be managing 1–2 cows, for household milk consumption. Thus, IoT to quantify milk production-based indicators is not scalable.

Let's take the example of Credin, a fintech platform which targets loans to dairy microentrepreneurs, a majority of whom are women. Identifying the required woman-entrepreneur persona, Credin's loans typically come with a utilisation clause, such that the loan can only be used for purchase of dairy assets (from the company's partner sellers), for example, cattle assets and so on. Their scouting and underwriting mechanism includes checking cashflows from milk sales, and deep interviews with women entrepreneurs to ensure they fit the 'entrepreneurial' persona, and the loans require women to be co-signers. By design, this requires women to have their own operational bank accounts. Further, the process of giving loans under Credin also includes an upskilling period, wherein women are trained in managing the dairy business at scale , dairy automation and cattle management best practices, alongside practical training like bookkeeping, etc.

Thus, any models, including dairy, would have to observe (asset size, cashflows, spaces where data can be digitised, ways to marry loan utilisation with assets related to the value chain), and build upwards for the women entrepreneurs they are serving.

5.1.4 Key Challenges to Scaling Lending

- **Share of Micro Credit Available to Women in the Specified Range is Grossly Inadequate in Comparison with Male Peers:** Research validates that the loans taken by women, across different ticket sizes are more expensive. Indian women entrepreneurs face a high rejection rate compared to their male peers—19% vs 8% (IFC, 2023). A lack of collateral (only 4% of agricultural land in India is owned by women) directly ties to a higher risk perception, and a higher interest rate. In a way, the ecosystem forces women to rely on microfinance loans, which do not have a technical assistance component, are poorly suited for those women, leading to overleveraging.
- **Overleveraging Due to MFI market Overlap and Lack of Suitable Alternative Products:** The target market has a heavy overleveraging problem—particularly because of the aggressive and poorly regulated growth of the MFI ecosystem, which is now able to lend in similar loan sizes. The ideal candidates for the productive credit lines are already over leveraged due to smaller loans provided by MFIs, and a number of them borrowing from up to five MFIs at a time, largely to manage household credit.
- **When Borrowing does Occur, it may be Driven by Male Counterparts of the Household:** There do not exist any resource-lean ways of distinguishing incidents of women taking loans for productive work, from incidents of loans being driven under the women entrepreneurs' names by their male counterparts. In situations

where both may run micro-businesses together, this may not be a core challenge. Further, in many situations, assets owned by the males of the household are used as security to access credit.

- **Few NBFCs Which Target This Segment Because of High Operational Costs and High Technical Assistance Requirement for Target Women Beneficiaries.**
    - Scale may be further constrained because of these limitations, and the very large number of such entities that would be required to move a quantum of capital in guarantees.
    - Thus, such experimental lines, instead go to NBFCs with larger average ticket sizes (for example, Aye Finance, Svakarma Finance to name a few).
    - Operationally, such NBFCs are not suited to disburse credit as their underwriting may not be as sharp as the NBFCs which operate exclusively within this space. Larger NBFCs may still be, in principle, making an impact. However, within the target beneficiary space, such credit lines remain 'experimental' to them, and not a core part of their scale or operations.
    - Smaller NBFCs built specifically for such women borrowers (for example, Credin, Finke Capital) have specific underwriting models, albeit resource-heavy, to ensure the most optimal profile of women borrowers is selected. However, not enough of them exist to make this a viable model to fund through blended capital, for the time being.

5.1.5 Key Determinants of High Cost of Credit Deployment

Both literature review and conversations have surfaced a number of underlying causes of high costs.

5.1.5.1 High Perceived Risk Alongside Perception of a Small Market Size

Secondary research reflects that lending to women is typically looked at as a riskier credit gamble than lending to men. What component of this perceived risk is reflected in credit cost is not yet discernible through the primary interviews. A part of this can be attributed to invisibility of women in the credit ecosystem, as well as lack of assets to use as securitising their productive loans.

While the role of guarantees is to address the high risk by reassuring lenders, the fact that the market for such credit is seen to be unpredictable and small, prohibits

[18]Approximately 20% of all MFI borrowers are high potential women entrepreneurs in the target persona, seeking loans identified in the range of our study. Interview with Pon Ananthan, a professional in the (south India) MFI industry for over 2 decades. Insights from key informant interviews. (2024).

stakeholders (blended capital actors like philanthropists, funds, and last mile credit intermediaries) to come together to build structured guarantee products.

Primary research has uncovered a crucial gap in lending products for women at the last mile in the identified range. The public sector (Prayaas scheme, MUDRA scheme) has attempted to bridge this gap, but has not yet been successful. One of the underlying determinants is a lack of understanding of:

- **Women's Usage of Productive Credit Capital for Household Expenditure:** Even in cases of lending to women leading to success in micro-entrepreneurship, it is not very well understood what component of the capital is absorbed into household expenditure management. This is a crucial element of women taking loans which do not have utilisation restrictions (typically a feature of value chain-based lending), and may not be observed for men taking loans for similar productive work. Thus, loan utilisation tied to the value chain is crucial in constructing credit products.
- **Requirement for Training:** In this loan range, women will more often than not require training and handholding on aspects related to how to run a business, book keeping, training and good practices related to the particular value chain, and so on. This is a key barrier to this (credit) asset class scaling in a purely market-based scenario.

5.1.5.2 High Operational Cost

Typically, the smaller the loan, the higher the operational cost. A high cost leads to a squeeze in margins, causing a low net interest margin. This reduces market momentum, by disincentivising private sector participants in a blended finance transaction targeting this space if the quantum of capital required to be blended is not sufficiently high.

While large and growing demand for credit to women in this missing middle has been established via literature review as well as interviews with lender-practitioners, they continue to be a minority in the Indian credit market. Currently such transactions are small scale, experimental and limited in market spread, implying it would be difficult to ensure the underlying portfolio of any one transaction will be large enough to make this an attractive experiment to run for private sector stakeholders for such a guarantee instrument.

5.1.5.3 Potential Risk Mitigation Instruments and Models Using Guarantees

Primary research with experts in blending in India surfaced some suggestions along this line of inquiry:

- **Technical Assistance in Capacity Building for Women Entrepreneur-Borrowers at an NBFC or Project Level:** A model to use technical assistance grants to subsidise the cost of upskilling the cadre of women microentrepreneurs identified so they can successfully scale their enterprises. This could either be domestic, public capital available through domestic DFIs like SIDBI, or even foreign or Indian philanthropic capital, or CSR capital.

- **Technical Assistance to Capture Data:** There exist a number of NBFCs operational in this gendered credit class space. However, scale is hampered by the fact that information continues to be contained in silos. For example, while Pinke Capital has a sub-1% NPA, its understanding of value chain determinants that contribute to its underwriting, are not yet codified by digitally aggregated data. A large number of these data points, often related to the value chain (for example, working capital quantum and cashflow patterns related to the type of productive work) stay with the leadership of these NBFCs. A phenomenon of codifying of value chain related data, similar to that seen in the case of Stellapps and the dairy industry will be required to build a stack of data to establish predictability of cashflows for each line of productive work. This can only be done through the type of public-private partnership that brought about the revolution in dairy microloans underwriting. There is thus a need for technical assistance to anchor study and aggregation of similar (value chain related) data points. A partnership with identified NBFCs will be crucial in operationalising this.

- **Guaranteeing Portfolios:** A measure to reduce risk, and crowd in more commercial activity in this credit asset segment could be to blend philanthropic capital to guarantee (wholly or partially) credit lines of select NBFCs. This will have a two-fold effect:

    - **Backstopping Credit Access:** Crowding in capital will immediately scale the size of loan books in this asset class, both within specialised NBFCs, as well as larger "impact" NBFCs. Because such entities are well formalised in terms of loan origination and management systems, collection and analysis of proxy data points related to the value chain. Gathering value chain or sector specific data is crucial to understanding variables of risk better, in order to reduce dependence on collateral as securitisation.

    - **Increase the Number of Target NBFCs:** Availability of capital for this purpose, will increase a proliferation of specialised (like Pinke Capital type) NBFCs. It will also increase a number of credit lines within larger NBFCs specially targeted to women microentrepreneurs.

5.1.5.4 Type of Mediating Agencies Required in the Ecosystem

Literature review and conversations with experts and stakeholders in the guarantee instrument blending space have led to the insight that using guarantees in blending for the purpose identified in this research will be impossible. One of the most important underlying reasons is that guaranteeing requires a significantly large pool of capital. This may not be possible given the fragmented nature of practitioner lenders catering to this market currently.

An ideal singular mediating agency or entity would be involved in aggregating demand, standardising requirements in order to ideate a cluster of credit lines that would be extended to target NBFCs. Such an entity could be independently run through the profit margins of such transactions; it would have to be an existing market stakeholder of this ecosystem to take on the risk of structuring such instruments, alongside liaising with target NBFCs to aggregate demand, manage and monitor data.

"We only deployed the MSDF guaranteed portfolio during COVID time because we had not raised any capital, and were finding it hard to. Thus, even though the target loan customers, which were first time urban microentrepreneurs requiring a loan of between INR 300,000 to INR 400,000, were very different from our typical target customers (manufacturing heavy portfolio, requiring credit upwards of INR one million), we still disbursed this loan to keep operations running. However, we have gathered limited impact data for these customers, and have not picked up a similar guaranteed credit line subsequently, as we managed to raise funds for regular operations thereafter." This insight from an Impact NBFC clearly underscores how impact NBFCs serving the higher ticket size segment of microenterprises have and will continue to deprioritise the last mile missing middle by way of operations, monitoring data, or even considering embedding this as a part of their regular offerings, largely because of the small ticket size.

In reality, a collection of mediating agencies may be required, as mentioned by blended finance experts, who had a better view about which entity of the ecosystem would pay for which pressing need—capital, advisory, or impact data.

5.1.5.5 Type of Viable Models in Other Sectors that can be Replicated

- **Partial or Full Guarantees (with Some Conditions):** These can be referred to in the section above in Key Findings.
- **Grant Bolstered Collaterals for Loans:** Available under literature review.

- **Financial Intermediaries Insuring Loan Portfolios of Target Impact NBFCs:** The Innovation: A fintech company developed a risk mitigation model specifically targeting early-stage NBFCs that cannot access traditional credit guarantees from CGTMSE (which requires BBB+ rating or AUM of INR 500 crores) or international DFIs (requiring sovereign guarantees).
  - **How It Works:**
    - The model provides credit guarantee coverage to a pool of up to 10 NBFCs.
    - Based on historical data, typically only 1–2 companies from this pool might default.
    - The cumulative premiums collected from all companies more than cover the potential losses from these 1–2 defaults.
  - **Financial Mechanics:**
    - Target NBFCs typically have baseline NPAs of 2–3%
    - The guarantee covers additional risk up to 5% NPA
    - Premium cost: 1% of portfolio size
    - Coverage structure:
      - First 3%: Covered by NBFC's internal credit appraisal
      - Additional 2%: Covered by guarantee scheme
  - **Example Scenario:**
    - Portfolio size: INR 100 crores each for 5 companies
    - Upfront premium collected: INR 5 crores (1% from each company)
    - Additional benefit: ~INR 1 crore potential returns from investing premium funds during the 1-year waiting period
    - Guarantee kicks in only after NPA crosses 5% (INR 10 crores)

This model effectively creates a sustainable risk-sharing mechanism that makes credit more accessible to early-stage NBFCs while maintaining commercial viability for the guarantor through portfolio diversification and premium investment returns.

5.1.5.6 How Long Would Guarantees be Required, if at all Deployed in this Space?

Both literature review and conversations with market participants have shown that proving the viability of models typically takes only a few months. In the context of our application, since there is still no standardised data available for the volumes of target NBFCs, their business models, and a vacuum of philanthropic intent alongside identification of value chains, we conservatively assert 5–7 years as the time frame wherein one identified value chain could be made market ready.

5.1.5.7 Documented Cases of Application of Blending Leading to Market Crowding

A startup operating in the agricultural sector, Bharat Rohan, had two main business lines—providing drone-based climate/weather data to smallholder farmers, and purchasing agricultural produce from farmers with advance payments. The company's journey of capital access demonstrates the catalytic role of guarantees. This de-risking was required because of the company's buyer relationship with low-income ('high risk') smallholder farmer customers.

In the initial stage, the company secured a loan of INR 25 lakhs from Caspian Impact Investments. This loan was backed by a guarantee worth only one-third of the loan amount (provided by a Bangalore-based intermediary using grant funding). This structure yielded a high leverage effect: the initial loan enabled commodity purchase and warehouse storage. This further unlocked a larger warehouse financing facility of INR 3 crores from a private bank. An even further leverage was achieved through invoice discounting against retail sales for the commodities. The company was successful in rotating this capital 2–3 times across multiple crop cycles.

After a successful demonstration of this model, the company was able to access direct bank financing at much lower interest rates (interest rates dropped by 500–600 basis points from the rates initially offered.

The key conclusion is that the relatively small guarantee acted as a de-risking tool that:

1. Unlocked initial credit access despite the high-risk business model
2. Created a demonstrable track record for traditional lenders
3. Enabled multiple levels of leverage (3x on the guarantee itself)
4. Eventually led to mainstream financing at better terms

While this may not be directly comparable (due to a lack of credit products for last mile missing middle women entrepreneurs), this case still effectively demonstrates how guarantees can serve as a bridge to commercial capital by reducing perceived risk and creating a multiplier effect on available funding.

6. Conclusion

Pure profit motives and market size considerations alone will not drive financial institutions to effectively serve the target category of women entrepreneurs—it simply may not appear as an attractive value proposition through a purely commercial lens (despite a sufficiently large market size).

Genuine financial empowerment for women requires going beyond basic access to finance. It demands alignment with their specific cash flows and self-employment patterns through value chain integration. It is clear that a larger body of research may be required to consolidate understanding, data and credit underwriting models for women specific value chains. In conclusion, no credit products backed by guarantees for women specific value chains can be introduced and scaled (without collateral) until this research, testing and piloting gap is closed.

This deeper level of financial inclusion will not materialise organically through market forces alone. To bridge this gap and accelerate the process, patient capital needs to be deployed strategically, capital that can take a longer-term view and prioritize social impact alongside financial returns. This is where structured, long term philanthropic capital can fill the gap.

The narrative here is clear: traditional market mechanisms are insufficient to achieve meaningful financial inclusion for women. What is needed is a blended finance approach that incorporates patient capital to catalyse genuine financial empowerment and sustainable economic participation.

In reality, a collection of mediating agencies may be required, at multiple levels. However, it can only be mobilised at the topmost philanthropic level, in a multiyear, targeted program starting with one value chain (options for value chains have been discussed above in key findings).

- **Capital Provision:** Impact funds which lend to or invest in credit companies which cater to the last mile missing middle women microentrepreneurs are crucial as channels to deploy portfolio (or deal level) guarantees. There is also a need to involve more domestic philanthropic capital sources (domestic foundations, domestic CSR), to explore channelling philanthropic capital unhindered by cross border transaction complexity.

- **Structuring Advisory Provision:** Blending advisory requires specialised risk modelling, financial analysis and structuring expertise. This expertise is expensive, and often paid for by the philanthropic capital provider. In some cases, impact fund intermediaries may have experts onboard to structure transactions in partnership with experts from the philanthropic capital partners. If domestic patient capital has to be sourced into blending, there is also a need for domestic expertise and advisory in this field.

- **Last Mile Missing Middle Credit Market Advisory:** Participants who understand this space well include stakeholders that research the last mile market through the gender lens, actual practitioners catering to women entrepreneurs in this market. While the former provides an understanding of women personas, and technical assistance nudges crucial to derisking loans, the latter has already been lending to this space, and will have practical risk mitigating mechanisms to de-risk portfolios. This segment of experts is crucial for identifying the value chains, in which guaranteed credit experiments can be run.
- **Data Advisory:** To ensure that underwriting models from pilot experiments can be mainstreamed, a strong, funded data support would be required. At the practitioner level, this funding is missing. This is where a part of the philanthropic capital can be used to develop stronger loan origination and underwriting systems given the value chains selected, and also monitor the collection of the embedded automated impact metrics over time.

7. Recommendations

Using Blended Capital to Demonstrate the Market Lending Use Case for Last Mile Missing Middle Women Entrepreneurs in One Specific Value Chain

The goal of this paper was to examine the market lending potential to the last mile missing middle of women microentrepreneurs. By way of literature review and specific primary interviews, we have concluded that there should indeed be focused lending to women entrepreneurs in the last mile missing middle. In fact, this segment represents a large enough market opportunity because of consistent and predictable economic activity aligned with specific value chains. The opportunity is made tangible with more than one value chain where cash flows can be made predictable because of existing models.

However, there is still a high level of perceived risk (at least as of today), contributed to by both the target entrepreneurs (women in the last mile missing middle) who we have identified as credit customers, as well as the value chains these entrepreneurs can be found in. The risk from value chains comes from a lack of sufficient industry knowledge in terms of credit models—in particular—seasonality of cash flows, quantum of capital, engagement of women entrepreneurs in this specific productive work, and more.

We recommend the use of blended capital to demonstrate a pilot working model with the goal of creating an industry level, and market-risk validated precedent for similar models in the future. We propose this model to be deployed by identifying one specific value chain wherein some data may exist because of the presence of some lenders who have validated use cases with the target women microentrepreneurs.

7.1 The Dairy Sector as the Ideal Value Chain to Conduct the Pilot

7.1.1 The Dairy Sector as the Driver of Deep Impact for Women and Households at the Last Mile

The relationship between livestock, women, and child nutrition can be examined through three key dimensions: (i) livestock as a reproducible and productive asset for women, (ii) the involvement of women in livestock production, and (iii) the role of livestock in enhancing child nutrition, facilitated by women. Unlike land, livestock are not constrained by property rights, making them accessible with minimal initial investment and easily scalable to build wealth and generate income. Women constitute a significant portion of the workforce in livestock production, contributing to more than two-thirds of the labor in India (Birthal and Taneja 2006; Jumrani and Birthal 2015). Given their active participation in livestock rearing, women are often assumed to have greater control over livestock-related income, thereby influencing household decision-making (Jumrani and Birthal 2015; Saxena et al. 2017). In rural societies, where land ownership tends to favor men, women's ownership of livestock can play a crucial role in narrowing gender disparities in income, nutrition, and education.

Livestock provide nutrient-dense foods, and their impact on household nutrition is often mediated by the family member who manages livestock income. Women, as primary caregivers, typically prioritize food and nutrition security within households. With control over livestock income, they are more likely to allocate resources toward children's nutrition, health, and education. Evidence from Africa indicates that women's ownership of livestock correlates with increased consumption of animal-source foods (Okike et al. 2005; Ayele and Peacock 2003). Income from livestock sales and animal products enhances dietary diversity and improves children's health, nutrition, and educational outcomes. For instance, a study in Ethiopia by Hoddinott et al. (2014) found that cow ownership increased children's milk consumption and reduced stunting rates. Similarly, Malapit et al. (2013) observed a positive association between women's control over livestock income and improved maternal and child nutrition in Nepal. Jumrani and Birthal (2015) also highlight the link between women's involvement in livestock production and better child nutrition. These findings underscore the importance of livestock-related interventions that empower women and promote human capital development through a gender-sensitive approach.

7.1.2 The Dairy Sector as Ideal for Piloting Blended Finance Instruments to the Target Women Micro-entrepreneurs at Scale

The dairy sector is also ideal for the pilot because of the presence of a pre-identified (micro-lending) dairy-ecosystem credit enterprise (Credin) which has, as part of their dairy-lending business model, been able to prove that:

1. Micro-lending in the identified range (USD 2,500 to USD 7,000 or approximately INR 2 lakhs to INR 6 lakhs) can be made viable operationally.

2. The model includes involvement of self-efficacious women entrepreneurs. These women represent credit worthy, and self-efficacious microentrepreneurs because of a range of contributing factors, from endorsement and the support of her family, to training in facets of entrepreneurship like book keeping, more professional management of operations related to the dairy value chain. There is also other research to demonstrate that at a certain (2–3 cattle) scale, dairy activities are driven by women of the household: women are already used to managing cattle for the household's dairy consumption across low-income households in the country. Support from their households, operational and entrepreneurial education enabled by the lending partner helps her scale operations.

3. Loan utilisation remains locked in for the predetermined productive uses only, because of the lender being able to develop loan products that are related to (cattle) asset purchases.

In particular, this value chain would be ideal for demonstrating via pilot because of the following factors:

7.1.2.1 Encoding Loan Utilisation for Assets (Particular to the Value Chain) into Loan Products Support Market Scalability

Coding loan utilisation is of particular importance in proving market models for the last mile missing middle women entrepreneurs across value chains. Loans coded into

[19]Corresponding with the "Optimistic Influencer" persona defined earlier

asset-utilisation products (in this case, a woman entrepreneur can only utilise her loan by purchasing cattle from the lending organisation's cattle selling partners) go on to reduce operational costs related to impact tracking. Encoding loan utilisation ensures that such pilots remain accessible to traditional credit market participants on whom we rely to make the results of this pilot usable as market-viable models.

7.1.2.2 Ensuring Monitoring and Evaluation to Validate Returns and Thus Market Acceptance of the Model

To make this pilot scalable by way of market use cases down the line, we propose that the women entrepreneurs' cashflows be traceable by digital transactions only. This will aid monitoring and evaluation by helping market participants (in particular, banks and NBFCs) assess returns and viability, and thus build market-scalable models of credit-worthiness for women in the dairy value chain.

7.1.2.3 Ensuring the Pilot is a Success in Yielding the Required Data for Proving Market Viability Requires a Broad-based Experimentation

Ensuring that the pilot is successful in gathering information that can help create market viable low-cost credit products for this class of microentrepreneurs would require that experiments be conducted with 4–5 lending organisations operating in this (dairy lending) value chain. Identifying at least 4–5 NBFCs of credit platforms operating in this space, across different regions, and keen to work on a pilot where such a women-entrepreneur specific blended capital experiment can be run will ensure diversified data points.

In particular, regions without a deep penetration of the dairy sector ecosystem (for example, Latur in Maharashtra), and alternative livelihoods options for women are limited, should be selected to demonstrate the scalability of the model across the country.

7.1.2.4 Using Technical Assistance Available from Women-Livelihoods Programs to Setup Blending and Credit Instruments, Engender Partnerships and More

- **Technical Assistance Capital for Finding and Freezing Funding Partners, and Developing Blending and Credit Products:** The fund structuring and financial engineering expertise required to set up a pilot should ideally come from grant capital available from the many women livelihood programs live in the market. A number of technical assistance grants are available from international development finance institutions and international foundations for research and development, with utilisation contingent on "women-livelihoods" application.

Ideally, technical assistance should pay for setup costs—including setting up a guarantee based blending instrument, identifying and partnering with partners—including philanthropic capital partners, capital intermediaries which would deploy such a guarantee covered facility, and would have at least one of the desired 4-5 dairy value chain credit NBFCs or credit platforms in their portfolio (or the ability integrate such NBFCs in compliance with their respective fund theses), any innovation partners which may be required, and other pilot setup costs.

- **Technical Assistance Capital for Innovation as Needed:** Innovation partners could include startups which work on digitising financial transactions as deemed necessary by the NBFCs or lending platforms. For example, startups enabling financial data transaction trail via the Account Aggregator framework. Startups focused on financial inclusion fintech that targets data of women beneficiaries will be a value add to such a pilot because of the ability to enable automatic monitoring and evaluation and market scalability.

  Most of the last mile missing middle women microentrepreneurs in the dairy production sector will be found in their respective households, typically in peri-urban and rural areas. To be viable as milk producers, they will need to be within the radius of milk collection routes. However, most of our potential target women entrepreneurs are likely sitting out of the usual milk collection routes across the country. Thus, the pilot should also enfold partnerships with startups which have developed mobile technology for collecting milk and keeping it chilled for up to two days (for example, a startup like Promethean Power Systems) until it can be transported to a milk collection centre for purchase and processing.

We hope to further this research in the future by being able to successfully deploy the proposed blended finance model.

Declaration of Generative AI and AI-Assisted Technologies
In preparing this manuscript, I have used the AI tool ChatGPT to summarise numerical information in desired table format for some tables, after inputting self generated / original text data and I take full responsibility for the content.

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Appendices

Appendix 1: Interviewees

Name	Organisation	Perspective
Ragini Bajaj		**Philanthropic Capital Expert, Blending Finance Expert**
Kamal Chhabra	**MSC**	**Blending Finance Expert, Impact Investment Expert**
Anonymised	**Anonymised**	**Blending Finance Expert, Impact Investment Expert**
Birju Naik	**Credin**	**Practitioner (Dairy Loans)**
Pon Aananth	**Pinke Impact Investments**	**Practitioner (Rural Loans)**
Anonymised	**Anonymised**	**Impact NBFC**
Anonymised	**Anonymised**	**Practitioner (Urban Loans)**
Anonymised	**Anonymised**	**Practitioner (Rural Women Entrepreneur Expert)**
Amandeep Panwar	**Bharat Rohan**	**Agritech Startup**

Appendix 2: : Interview Guide

Philanthropic Capital Experts, Blending Experts & Impact Investment Experts

1. What is your familiarity with blending instruments?

2. Which type of blended finance transactions have you come across, and how were these structured?

3. What was the proportion of guarantees in these? Can you share examples of guarantee based blending transactions that you have been a part of / observed across different sectors? Which stakeholders were involved in this?

4. According to you, what are the key barriers to guarantees being used to service last mile customers in credit markets, particularly high-risk women customers?

5. Which other barriers do you see in use of guarantees in this market?

Practitioners

1. Describe your customers (sectors, personas) and the loan products (ticket sizes, rate of interest), etc.

2. Do you lend to women in the last mile (target loan range specified).

3. Which women entrepreneurs do you see in this loan range?

4. How do you underwrite them?

5. What are the key barriers to formalising and mainstreaming this credit customer category?

6. Help us better understand your customers - how independent are they, how dependent or interlinked with their husbands' support or assets is access to credit for them?

7. What type of guarantees would make access to capital for these customers more enhanced?

Impact NBFCs: These NBFCs typically gave credit to customers beyond the last mile missing middle range as specified in the report, to larger microenterprises, and as such, have been used as a contrast for the practitioners.

1. Describe your customers (sectors, personas) and the loan products (ticket sizes, rate of interest), etc.

2. Do you lend to women in the last mile (target loan range specified). If not, are you planning to lend to them in the future?

3. Have you lent to them under a guarantee covered credit line before? Please explain the specifics of this arrangement.

4. Give your views on the future of this market, and how can guarantees help to mainstream the market.

Unlocking Outcome-Based Capital in India:

An Empirical Exploration of Key Drivers and Barriers with a Focus on Impact Bonds

Anurag Gangwar

Founder & CEO @ Impact-Verse | Outcome-Based Financing | Social Impact & Tech | Co-Convenor @ Parinaam2023| Ex-IFC (World Bank), P&G | Passionate about scaling impact through innovation and capital access | IIT Delhi | MBA @ FMS Delhi | Blitzscaling, TAVtech and Jagriti Yatra Fellow

Mentor: **Priyanshu Gupta**

Abstract

The study, "Unlocking Outcome-Based Capital in India: An Empirical Exploration of Key Drivers and Barriers with a Focus on Impact Bonds", explores the rising adoption and institutionalisation of impact bonds (which is the most widespread instrument representative of outcome-based financing), with a specific focus on the Indian context. As per the United Nations (UN), traditional development finance methods are proving inadequate to bridge the $4 trillion annual gap needed to meet the Sustainable Development Goals (SDGs) globally. Impact bonds, which are the most widely adopted instrument for outcome-based financing, which shift the emphasis from inputs to outcomes, represent a promising mechanism for addressing this shortfall. By August 2024, 298 impact bonds had been contracted across 38 countries, mobilising over $763 million, and benefitting over 2.5 million people, according to the Government Outcomes Lab, Oxford University.

This research aims to map global literature, identify knowledge gaps, and formulate hypotheses around the enablers and barriers to outcome-based financing (OBF). The specific objectives are: (1) To review and classify relevant academic and industry literature; (2) To develop stakeholder-specific hypotheses on key drivers and barriers through primary data collection from outcome funders, risk investors, service providers, and intermediaries; and (3) To offer policy recommendations based on empirical evidence gathered from key stakeholders within India's OBF landscape.

The research follows a mixed-methods approach, combining both quantitative and qualitative data. It is structured in three phases: (1) a comprehensive literature review, which identified gaps and helped formulate preliminary hypotheses; (2) hypothesis formation and survey design, focused on stakeholder-specific drivers and barriers; and (3) primary data collection through surveys and interviews with key stakeholders across the outcome-based financing ecosystem in India. Theoretical frameworks drawn from both empirical studies and policy analysis were employed to categorise academic literature and guide the primary data collection. The study, as part of the literature review, covered 168 academic papers, 42 industry reports, and 33 public transaction documents to form hypotheses around the driving factors and limiting challenges with regards to mainstreaming outcome-based financing in India.

The secondary data reveals a rapidly expanding market for outcome-based transactions, with a growing global shift towards outcome-based contracting. Primary research highlighted a diversity of perspectives among stakeholders, with a focus on verified outcomes, scale up of effective interventions, emphasis of data and verification and transfer of risk being identified as some of the key drivers. A few prominent barriers identified included high costs to design and manage these transactions, high legal and compliance complexities, limited pipeline of interested outcome funders and service providers with the capacity to absorb this form of capital.

The recommendations emphasise the need to build a stronger evidence base, enhance service provider capacity, raise awareness among funders and investors, and advocate for legislative frameworks that facilitate the adoption of outcome-based financing models. This study aims to contribute significantly by offering practical insights into the drivers, barriers, and perceptions around mainstreaming this innovative financing mechanism to address India's social and developmental challenges more effectively.

Acknowledgement

The study, “Unlocking Outcome-Based Capital in India: An Empirical Exploration of Key Drivers and Barriers,” has been made possible through a collaborative effort and I am grateful to everyone who provided support for it to come to fruition.

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This research would not have been possible without the collective effort of all these individuals and organisations. Thank you everyone for your invaluable support and contributions.

1. Introduction

1.1 Background and Context

Outcome-Based Financing (OBF) has emerged as a promising solution to address some of the most pressing social and environmental challenges. In simple terms, OBF shifts the focus of financing from inputs and activities to specific and measurable outcomes. This approach ensures that funds are allocated to maximise the impact of every dollar spent. Given the fact that there is an estimated $4 trillion gap to achieve the UN Sustainable Development Goals (SDGs), the urgency for innovation in financing alternatives like OBF has never been greater (UN News, 2023).

In response to this financial gap, the UN Secretary-General has advocated for a "surge in investment," inviting a $500 billion annual SDG stimulus to provide affordable and long-term financing to developing countries. Impact bonds (social or development), which are the most common and widely used instruments within OBF, offer a means to bridge this financing gap by ensuring that existing funds can be used more effectively by linking payments to verified outcomes as opposed to inputs and activities, and also by mobilising new private capital.

India faces immense developmental challenges across sectors such as education, healthcare, and environmental sustainability, but traditional philanthropic and public funding approaches have been insufficient to meet the scale of the country's needs, creating a strong case for the necessity and relevance of OBF in India. With growing interest in OBF, it also presents a promising path to unlock new funding sources while ensuring high levels of accountability and outcomes.

1.2 Rise of Impact Bonds

Impact bond is the most widely used instrument in the broader OBF ecosystem. In an impact bond, philanthropic donors, or governments (outcome funders) only pay for the successful achievement of verified outcomes, while an external investor takes the risk of providing working capital to service providers, to implement the intervention that leads to outcomes. This approach transfers the risk from outcome funders to investors, increasing the impact per dollar of their funds, which are only triggered on successful achievement and verification.

Impact bonds are of two types:

- **Social Impact Bonds (SIBs):** In these impact bonds, the government is the lead outcome funder, focusing on social issues such as homelessness, unemployment, and recidivism. They are more prominent in developed countries.
- **Development Impact Bonds (DIBs):** In these bonds, philanthropic and multilateral organisations are the lead outcome funders addressing global development challenges, such as education, healthcare, and poverty alleviation. They are more prominent in developing countries.

1.3 Historical Evolution of OBF

The evolutionary journey of outcome-based financing can be traced back to the United Kingdom (UK) with social impact bonds, the emergence of development impact bonds to more novel ways from the introduction of outcomes using technology platforms.

- **Social Impact Bonds (SIBs):** The concept of (social) impact bonds originated in 2009 with the launch of the Peterborough Social Impact Bond, which was designed to reduce reoffending rates among prisoners in the UK. This initiative started a global movement towards OBF, particularly in Europe and North America. As of August 2024, 298 impact bonds had been contracted across 38 countries that have raised more than $763 million, as per Government Outcomes Lab, Oxford University. The success of SIBs in addressing issues like homelessness and youth unemployment positioned them as a key instrument for social finance, especially for government to make their public spending more efficient.
- **Development Impact Bonds (DIBs):** Introduced after SIBs, DIBs were tailored mainly for the low and middle-income countries, where international aid was playing a more prominent role in advancing development than mature local governments delivering public service. A notable example of a DIB is the Educate Girls DIB, which was launched in 2015 in Rajasthan, as the first impact bond of India. This DIB was aimed at improving educational outcomes for young girls in underserved regions and achieved significant success, that exceeded its target enrolment and learning outcomes. This demonstration served as a proof of concept, showing that DIBs can be a viable and effective financing tool in challenging contexts, and encouraged their broader adoption in sectors such as healthcare, vocational training, and others.
- **The Evolution of Outcome-Based Financing (OBF):** Beyond SIBs and DIBs, in recent years OBF has expanded to encompass a variety of interesting instruments,

in which payments are linked to the achievement of specific social outcomes. Innovations such as "Outcome Funds" have emerged, which pool capital from multiple donors reducing the fixed costs associated with bespoke individual impact bonds. This evolution has made OBF more scalable and cost-efficient, especially in contexts where multiple stakeholders are involved.

- **Recent Innovations:** Innovations like the Common Goods Marketplace, OutcomesX and ImpactVerse are attempting to reduce the transaction time and costs associated with design, fundraising, management, and evaluation in outcome-based financing transactions, leading to simpler, cost-effective, and scalable alternatives to traditional instruments such as development impact bonds or social impact bonds. The adoption of artificial intelligence and blockchain technology for transparent verification of outcomes, as well as big data analytics to enhance real-time decision-making, are also gaining traction in different parts of the world. These technological advancements offer significant potential to overcome some of the key challenges associated with OBF, particularly in emerging markets where administrative data is unreliable or incomplete.

1.4 Significance of the Study

This study is significant for several reasons, particularly in the context of low- and middle-income countries like India, where the adoption of OBF has been slower compared to other regions. Despite India's vast social challenges and the immense potential for OBF to mobilise private capital, few transactions have been completed to date. Additionally, much of the existing literature and data on impact bonds is concentrated in Europe and North America, with limited research capturing the unique regulatory, financial, and operational challenges specific to India.

Moreover, as the global OBF market grows, there is an urgent need to develop standardised templates, outcome rate cards, and metrics that can simplify and scale these financing models. The findings of this study aim to contribute to this emerging body of knowledge by providing insights into the key drivers and barriers to OBF adoption in India. By exploring the practical challenges faced by stakeholders—ranging from service providers to funders and investors—the research seeks to inform future policy, improve the design of OBF transactions, and contribute to the mainstreaming of OBF as a financing model for social and environmental impact.

1.5 Objectives of the Study

The primary objectives of this study are to:

- Map the global and Indian literature on OBF and identify key knowledge gaps.
- Formulate and refine hypotheses on the key drivers and barriers to OBF adoption in India, based on extensive consultations with stakeholders from across the development, philanthropic, and investment sectors.
- Identify stakeholder-specific insights on the adoption of OBF models, including the unique regulatory, financial, and social challenges faced in the Indian context.
- Propose actionable implications and recommendations for scaling OBF in India, with a focus on innovations in financing models, regulatory frameworks, and technological integration.

The following sections of this report will delve into the Literature Review, providing a detailed examination of the existing studies, reports, and transaction data on OBF. The Research Study section discusses the research questions, objectives, and scope of the study. The Research Methodology section will outline the structured approach to data collection and analysis, while the Findings and Analysis will synthesise insights from interviews, surveys, and secondary data. Finally, the Conclusion and Recommendations will offer practical strategies for the mainstreaming and scaling of OBF in India, supported by the research findings.

2. Literature Review

2.1 Overview Of Literature

2.1.1 What Work Has Been Done

Impact bonds, particularly Social Impact Bonds and Development Impact Bonds, have garnered significant attention as instruments of outcome-based financing (OBF) over the past decade (GO Lab, 2022). These instruments originated in the UK and spread globally as governments and international organisations sought new ways to tackle complex societal issues such as homelessness, education, and public health.

The term outcome-based financing came into the mainstream in 2009 when the UK government, under Prime Minister Gordon Brown, announced a commitment to pilot social impact bonds to fund delivery of public service (GO Lab, 2022). This led to the launch of the first social impact bond at Peterborough prison in 2010 that focused on reducing reoffending rates. In this transaction, the government acted as an outcome payer who paid only for the achievement of specific, measurable outcomes, which was to reduce the recidivism rate in public prisons while transferring the risk onto service providers and the investors take on the financial risk.

This transaction created the first demonstration that socialised the concept and mechanisms of outcome-based financing internationally. This led to the formation of a working group by the Center for Global Development (CGD) in the UK, in partnership with Social Finance, to explore the feasibility and role of development impact bonds in low- and middle- income countries in 2012. By 2013, this working group published a report, with case studies and examples of early potential models, showcasing the potential of DIBs in these markets. One of the first DIBs, the Educate Girls bond launched in India in 2015, further advanced the global conversation and spread of impact bonds.

The number of impact bonds has grown exponentially since then. As of 2024, over 298 impact bonds have been launched globally, across sectors such as education, healthcare, and employment (GO Lab, 2022). This includes a growing number of projects in emerging economies, such as India, where stakeholders view OBF as a potentially transformative tool for closing the Sustainable Development Goals funding gap (World Bank, 2020).

The literature on impact bonds spans a variety of sectors and regions, with a particular focus on SIBs in developed countries. Most studies emphasise theoretical frameworks, case studies, and anecdotal evidence, while empirical studies remain relatively rare. A review of 3400 academic papers revealed that 75% of the literature on OBF focuses on SIBs, 45% on theoretical models, and only 10% on empirical evidence, highlighting a gap in research that this study aims to address.

2.1.2 Drivers of Outcome-Based Financing

Impact bonds have become popular due to their ability to create measurable social impact while mitigating financial risk for governments and donors. Several core drivers have emerged from the literature and various reports, including those from the Oxford Government Outcomes Lab (GO Lab, 2022), the World Bank, and Department for International Development (DFID) (2021).

- **Focus on Outcomes:** OBF structures emphasise on incentive achievement of measurable outcomes, which traditional grant-based models often overlook as they just focus on paying for inputs. The focus on outcomes instead of inputs and activities leads to efficient use of funds and encourages accountability among service providers (GO Lab, 2022). Such an increased focus on outcomes in terms of design, strategy, execution, and measurement may induce significant and longer-lasting social outcomes, particularly in sectors like education and healthcare (Brookings, 2019).

- **Innovation and Flexibility:** OBF structures provide flexibility and innovation in service design, based on real-time data, that lead to better outcomes, since payments are linked to verified outcomes and not the specifics of inputs, activities, and outputs as in traditional grant making (Ecorys, 2021).

- **Higher Accountability:** In OBF structures, since payments are tied to verified outcomes, stronger emphasis is placed on the rigour and third-party independence of verification of outcomes, which brings a high degree of accountability to stakeholders, ensuring funds are used efficiently (Government Outcomes Lab, 2022).

- **Risk Transfer and Cost-Effectiveness:** OBF structures transfer failure risks to investors, ensuring that public and philanthropic funds pay only for successful outcomes, unlike traditional grants where governments and philanthropic donors take all the risk (World Bank, 2020). This mechanism to share and transfer risk instils discipline and rigour, contributing to cost effectiveness.

- **Engagement of New Stakeholders:** OBF structures invite private investors and financial institutions to use their expertise and network to address development challenges, which traditionally only government or philanthropic organisations would have funded. By allowing outcome linked investment returns, these structures invite new private capital to flow into initiatives that might be considered new or risky by governments and philanthropic donors, thus increasing the pool of available risk funding for development projects (CGD, 2019).

2.1.3 Barriers to Outcome-Based Financing

While outcome-based financing has its advantages, its adoption has faced some notable barriers and challenges, which have been well documented in literature and were also voiced by the participants of this study. Some of the key barriers are as follows:

- **Complexity and High Transaction Costs:** One of the most cited barriers is the high complexity of designing, implementing, and evaluating outcome-based financing transactions. Design and setup of these multi-party contracts require significant time, resources and specialised knowledge in legal, financial, and performance measurement (World Bank, 2019). The high transaction costs make it difficult for smaller organisations to participate in OBF models, which limits its scalability and replicability (Brookings, 2020).
- **Lack of Standardised Metrics and Price Benchmarks:** Another major challenge in designing outcome-based financing transactions is the difficulty in defining and pricing outcomes, and building consensus around the definitions and pricing benchmarks. The lack of standardised metrics and benchmarks makes it challenging to create outcome rate cards and equivalent public resources in India that could accurately reflect the costs and benefits of achieving social outcomes (Oxford GO Lab, 2022).
- **Regulatory Barriers and Legal Complexities:** In India, ambiguity on regulatory issues around CSR compliance, foreign donations, and tax regulations present significant hurdles for OBF adoption given the novelty of these structures. Stakeholders have struggled to navigate Indian laws and various compliance requirements, especially those related to the flow of funds from foreign donors (British Asian Trust, 2023). These barriers are compounded by the lack of a cohesive regulatory framework to guide and facilitate outcome-based transactions in public or private procurement (World Bank, 2020).
- **Limited Awareness and Capacity:** Despite increase in the outcome-based financing transactions, many governments, service providers, outcome funders and risk investors are unfamiliar with the world of OBF models such as impact bonds. Complexity of these structures and limited understanding of how these models work presents a significant barrier to their adoption. Additionally, the limited capacity of various organisations to navigate the complex financial and

legal negotiations has led to multiple failed or stalled projects (GO Lab, 2022).

- **Scepticism and Misconceptions:** Despite the potential benefits, OBF has faced scepticism from various stakeholders who perceive it as overly complex, risky, and intellectualised. There has been reluctance to adopt OBF due to concerns about the financial risk, the dependency of cash flows on outcomes, and the possibility that outcome measures may not accurately reflect real-world impact (British Asian Trust, 2023).

2.2 Gaps in Literature

Despite the growing interest in OBF, there has been limited research focused on India's unique regulatory, cultural, and financial contexts. This study fills a critical gap by providing a stakeholder-specific analysis of the drivers and barriers to OBF in India. It aims to address three key questions:

- What are the key motivators for different stakeholders in adopting OBF?
- What challenges hinder the adoption and scaling of OBF in India?
- How can OBF be mainstreamed in India, given its unique socio-political and regulatory landscape?

This research also adds to the global discourse on mainstreaming OBF by highlighting the lessons learned from early adopters and providing recommendations for future transactions. By focusing on empirical evidence, this study contributes to the limited body of research on OBF in India. It builds on existing frameworks and adds new insights that can inform policymakers, donors, investors, and NGOs interested in leveraging OBF to achieve social outcomes at scale.

2. Research Study

3.1 Research Questions

This section outlines the primary research questions guiding this study. The focus is on identifying the drivers and barriers to the mass adoption and institutionalisation of outcome-based financing in India. These questions seek to explore the underlying factors and stakeholder perceptions that either promote or hinder the success of OBF models:

- **Key Drivers:** What are the fundamental drivers influencing the mass adoption and institutionalisation of outcome-based financing to scale social and environmental outcomes in India?
- **Major Barriers:** What are the primary barriers preventing the widespread implementation of outcome-based financing models in the Indian context?
- **Stakeholder Perceptions:** What are the prominent perceptions and experiences of different stakeholders (outcome funders, risk investors, service providers, and intermediaries) shaping the adoption and success of outcome-based financing mechanisms?

3.2 Research Objectives

This section focuses on the objectives of the research to achieve its goal, which is to identify key drivers and barriers affecting the mainstreaming of OBF models in India. The research objectives are divided into three distinct phases:

- To conduct a literature review and identify gaps in knowledge related to outcome-based financing. This will also identify theoretical foundations and principles corresponding to drivers and barriers of OBF.
- To develop preliminary hypotheses based on literature review for each stakeholder type (outcome funders, risk investors, service providers, and intermediaries) and create a data collection plan to take inputs of key practitioners of OBF as research participants.
- To gather and analyse qualitative and quantitative data from various practitioners to validate and refine the hypotheses. This phase aims to pinpoint specific drivers and barriers unique to the Indian context and explore their broader implications for the mainstreaming of OBF.

3.3 Scope of the Study

The scope of this research includes an extensive examination of global and Indian perspectives on outcome-based financing. The study undertakes a wide literature review including academic papers, public transaction documents and industry reports on impact bonds and other OBF models, focusing on their successes, limitations, and potential for scalability.

In addition, the study also incorporates a consultation with key practitioners mainly in India to get their inputs on the hypotheses and qualitative insights on the research objectives. These consultations include interviews and surveys with key players in the OBF space—outcome funders, risk investors, service providers, and intermediaries. By capturing the qualitative motivators, practical insights and concerns of these players, the research provides both implications and actionable recommendations regarding the adoption and effectiveness of outcome-based financing, particularly in the context of India.

This study also aims to guide specific recommendations on how India can address gaps in knowledge, build infrastructure for OBF, and create simpler, more inclusive, and efficient financing mechanisms. The research provides an empirical analysis that can inform policy, practice, and further research, with the goal of better understanding the mainstreaming of OBF in India.

4. Research Methodology

4.1 Research Design

This study takes a mixed-methods approach with both quantitative and qualitative research methodologies to explore and understand the key drivers and barriers to better comprehend the mainstreaming potential of outcome-based financing (OBF) in India. This ensures that both quantitative data and qualitative insights are captured in the study, providing a more holistic understanding of its nuances.

The research process is structured across the following phases:

- **Mixed-Methods Research:** This research relies on both quantitative and qualitative methodologies, through structured surveys designed to gauge the importance and relevance of identified drivers and barriers. The qualitative component focuses on stakeholder experiences and insights through interviews.

This approach helps triangulate findings, providing both breadth and depth to the analysis.

- **Process of Hypotheses Formation:** Based on the literature review, raw hypotheses on drivers and barriers were extracted, cleaned, and standardised for consistency across terminology and language from different types of literature sources—academic research papers, industry reports and public transaction documents. These hypotheses were grouped into key themes, which were used to develop the survey and interview questions. The hypotheses focused on identifying the drivers and barriers critical to the adoption of OBF and were validated and refined through primary data collected from research participants. It is to be noted that this study is an exploratory study to discover and refine various hypotheses, and not to validate or invalidate any key hypotheses in the statistical or modelling sense.

- **Survey and Interviews:** The survey was designed to understand the relative importance and rank order prioritisation of the identified drivers and barriers. In-depth interviews were conducted to gather qualitative insights and a deeper understanding of the topic. The interviews allowed for more detailed explanations and examples, helping to contextualise the survey findings and uncover additional factors that might not have been captured through the survey alone.

4.2 Theoretical Framework

4.2.1 Literature Review

A comprehensive literature review was conducted using a combination of academic papers, industry reports, transaction documents, and other resources. The selection process involved reviewing a wide range of sources to ensure the hypotheses were grounded in both theoretical and empirical evidence.

- **Academic Papers:** Using **Web of Science** and **Google Scholar**, we accessed over 3400 research papers from the publications that were a part of the Web of Science and Google Scholar database from January 2010 to December 2023, using the search string–"Outcome-based finance", "Outcome financing", "social impact bonds", "development impact bonds", "outcome linked payments", "pay for success", "linking funds to outcomes", "outcome based contracts" and "outcome financing". From which, 168 were selected for detailed review and mapping. These papers were categorised into five types which are explained as under.

Firstly as, "Case Studies and Evidence", which included papers on specific, real-world examples with in-depth analysis of particular cases, organisations, or interventions related to outcome-based financing transactions. The objective of these studies is to draw lessons or contribute to theory-building through practical and grounded experiences. Secondly as, "Theoretical Studies and Models", which included papers on proposing or discussing new frameworks, theories, or models related to outcome-based financing. They aim to advance conceptual understanding but do not necessarily include empirical data analysis or testing. Thirdly as, "Empirical Studies", which included papers that rely on quantitative or qualitative data collection and analysis to test hypotheses or explore relationships between different variables. These studies aim to validate existing theories or generate new insights based on real-world data. Fourthly as, "Policy Analysis and Reviews", which included papers that provide critique or analysis of public policies, regulations and programs in relation to outcome-based financing. Their focus is on assessing the impact of policy decisions and offering actionable recommendations to policymakers. And finally, as "Literature Reviews and Meta-Analyses", which included papers that summarise, critique, or synthesise existing research related to outcome-based financing. Meta-analyses within this category statistically or qualitatively combine results from multiple studies to draw broader conclusions about the efficacy or impact of outcome-based financing.

- **Industry Reports:** In addition to academic papers, 42 industry reports on outcome-based financing from leading organisations such as the Oxford Government Outcomes Lab, World Bank, Indian School of Development Management (ISDM), and British Asian Trust, were also reviewed. These reports provided additional practitioner side insights into the real-world applications of OBF, particularly within the Indian context.

- **Public Transaction Documents and Databases:** Insights from public transaction documents on 33 outcome-based financing transactions were also included in the study. These documents provided valuable insights into the practical considerations of OBF projects, including rationale, lessons learned, challenges, and outcomes achieved.

- **Webinars, Roundtables, and Discussions:** The study also referred to the repository of industry webinars and roundtable events from the event, "Parinaam 2023 – Global Outcomes Financing Conference", which the author help convene and attended both in person and virtually. This conference brought together both Indian and global practitioners to discuss emerging trends and challenges in outcome-based financing.

A detailed list of reviewed academic papers, industry reports and transaction documents has been added to the Appendix.

4.2.2 Hypotheses from Literature Review:

The reviewed literature, comprising of academic papers, industry reports and transaction documents, provided the source for various hypotheses on key drivers and barriers of OBF. Raw hypotheses were extracted, cleaned and standardised from the literature, and were then consolidated and grouped into key themes, guiding the design of the survey and interview.

4.2.3 Survey Design for Relative Importance:

The survey was designed based on key hypotheses formed from the reviewed literature. The purpose of the survey was to assess the relative importance of the formulated driver and barrier hypotheses for different stakeholders involved in OBF. Research participants were asked to rank the importance of various hypotheses, providing a quantitative measure of which elements were seen as most crucial in their decision making and experience.

4.2.4 Interviews for Qualitative Insights:

Interviews were also conducted to complement the survey and gather additional qualitative insights. The aim of the interviews was to extract insights beyond quantitatively ranking drivers and barriers, to capture a deeper comprehension of their experiences with OBF transactions, the challenges they faced, and their perspectives on the future potential of this financing model in India. Interviews helped clarify the context behind the survey responses and enriched the study with their detailed and real-world perspectives and examples.

4.3 Sample Selection

4.3.1 Sample Design

The study aims to capture the perspectives of all key stakeholders involved in outcome-based financing transactions in India, along with five global stakeholders who have been directly or indirectly instrumental in Indian OBF projects. Following this approach, a universe of 37 key decision-makers was mapped across various stakeholder categories, mainly focused on India. Out of these, 16 stakeholders responded to both the survey and interview, providing a diverse range of insights. The respondents represent different roles within the OBF ecosystem, allowing the research to cover a broad spectrum of viewpoints (See Appendix 1).

4.3.2 Profile of Respondents

The research respondents can be classified into four key groups:

- **Outcome Funders:** These include philanthropic organisations, government entities, and international development agencies that provide the funding to achieve specific social outcomes. They commit financial resources, but payments are contingent on the achievement of pre-defined, measurable outcomes. Examples in the study include international foundations and CSR departments of multinational corporations.
- **Risk Investors:** These stakeholders provide upfront capital to finance the interventions, often bearing the financial risk if the desired outcomes are not met. Their motivation is not purely financial, but often involves a blend of social and financial returns. Private equity firms, impact investors, and social finance organisations fall into this category.
- **Intermediaries:** These are organisations that act as design partners, implementation managers, or convenors. They facilitate the design, execution, and monitoring of OBF projects. Intermediaries are critical for bringing together funders, investors, and service providers, ensuring alignment on outcomes and performance metrics. These include consulting firms, financial advisors, and specialised social impact agencies.
- **Service Providers:** Non-profit or for-profit organisations responsible for delivering the interventions. Service providers work on the ground, directly implementing programs aimed at achieving the targeted outcomes. In many cases, they are paid based on performance, creating a strong incentive to achieve results efficiently and effectively.

For more details on the stakeholder profiles, please refer to the Appendix.

4.4 Data Collection

- **Survey:** The survey, designed in Google Forms, was distributed via email to participants, with alternative formats provided for those unable to access the platform. It remained open for two months, and responses were collected from 16 participants. The survey focused on ranking the importance of various drivers and barriers, providing quantitative data for analysis. (A copy of the survey design is included in the Appendix 3).
- **Interviews:** Interviews were conducted over a two-month period via in-person and virtual meetings through Zoom and WhatsApp calls, which depended on the

preference and availability of respondents. The interview duration ranged from a minimum of 15 minutes to a maximum of one hour. These interviews gathered qualitative insights and allowed respondents to elaborate on their experiences with OBF (See Appendix 2).

4.4.1 Ethical Considerations

The study followed strict ethical standards and guidelines to ensure the protection of research participants and the integrity of the data collected.

- **Informed Consent:** All participants were informed well in advance about the purpose, procedures, and scope of the study. Their consent was also obtained before participation and mention of their attribution, and participants were given the option to withdraw at any point without penalty.
- **Confidentiality:** The study ensures that all data is kept confidential, with individual responses anonymised in the final report to protect participants' identities with no direct or indirect causal attribution whatsoever.
- **Voluntary Participation:** Participation in the research was entirely voluntary, and participants were under no obligation if they chose to withdraw.

5. Key Findings and Analysis

5.1 Key Hypotheses from Literature Review

The literature review and survey results from research participants revealed a wide and complex landscape of drivers and barriers affecting the adoption of Outcome-Based Financing (OBF) models in India. Despite the growing interest in OBF, the survey results show that there is no uniform narrative, no agreement in prioritisation or understanding of the main drivers and barriers. This also indicates a gap in common narrative, frameworks, and principles adding to the challenge of mainstreaming OBF in the country.

Table 1: Hypotheses on drivers and barriers from literature review (not in any priority order)

Hypotheses on Key Drivers	Hypotheses on Key Barriers
For Service Providers	
• Flexibility to use funds and innovate	• Time, cost, and complexity
• Build and demonstrate evidence	• Lack of capacity and systems
• Improve data and performance systems	• High delivery and performance pressures
• Learning and expertise from partners	• Inadequate initial working capital
• Future funds from new sources	• Uncertainty of future funds
For Outcome Funders	
• High-quality and verified social outcomes	• Time and cost considerations
• Innovative and effective solutions	• Too complex and complicated
• Additionality, innovation, and cost-effectiveness	• Compliance and legal ambiguities
• Risk transferred to investors	• Limited capacity of implementers
• Alignment with strategic mission and brand	• Reputation risks due to potential failure
For Risk Investors	
• Financial return plus social outcomes	• Legal and compliance complexity
• Verified outcomes and superior performance	• Reputation risks
• Portfolio diversification	• Limited awareness and understanding
• Strategic positioning and brand	• Lack of trust in NGOs
• Returns linked to verified outcomes	• Outcome or failure risk

For Intermediaries	
• Scale-up of effective programs	• Time and cost considerations
• Flexibility in service design and innovation	• Lack of funds to support design
• Independently verified outcomes	• Complexity and coordination issues
• Demonstration and validation	• Limited market awareness and evidence
• Creation of new evidence and partnerships	• Limited capacity of service providers

Table 1 summarises the key drivers and barriers derived from literature review classified by different stakeholder groups. The findings illustrate both the potential of OBF to bring innovation and the challenges that come with its implementation, particularly in the Indian context.

5.2 Discussion of the Findings

The findings from the literature review, surveys, and interviews hint towards a diverse but connected understanding of outcome-based financing among different stakeholders, particularly in India. The core hypotheses on rationale revolve around its ability to tackle complex societal challenges at scale through measurable and outcome-driven solutions. However, there are a bunch of barriers, ranging from structural and financial to cultural and legal realities.

For **service providers**, the primary drivers include the flexibility that OBF allows in service design, organisational change led by increased focus on outcomes and data, and the opportunity to build evidence and attract future funding. However, service providers also face barriers such as the high time and cost invested to participate in OBF models, high performance and time pressures, difficulties in managing cashflows and accessing upfront working capital. There is also uncertainty on future fund flow to sustain and scale their operations, once an OBF transaction has successfully demonstrated positive outcomes. This is an important point because some of the projects supported by OBF may not generate enough revenue to self-sustain and might be dependent on development capital to sustain operations, and the absence of a future funder or pipeline of future outcome funds (which could be due to a limited pipeline of outcome funders), further complicates planning and sustainability of these structures. At the end of a transaction, either new outcome funders come in with more money, or new capital in the form of a grant comes in to scale the project (which may or may not leverage the created OBF infrastructure and transformation) or not find new capital and die.

Outcome funders are motivated by the cost-effective use of their funds to pay for high-quality and verified social outcomes, while encouraging innovation and scale-up of demonstrated interventions. They see a strong opportunity to learn through this novel (and celebrated) alternative to work with other partners, in aligning OBF (emphasis on outcomes) with their strategic missions and the transfer of risk to investors as key advantages. However, their concerns lie in the risk of overengineering and high complexity of OBF transactions, time-consuming processes, legal ambiguities, and the risk of reputational damage in case of failure. One participant noted, "While OBF allows for enhanced accountability, the risks to reputation in case of failure cannot be ignored." There are also concerns about the field being driven by intermediaries and consultants, rather than by the beneficiaries, service providers and other outcome funders (philanthropic donors and government).

Risk investors, driven by a combination of financial returns and social outcomes, are primarily attracted to the verified outcomes data from OBF and its potential to allow them to diversify their investment portfolio. They also see OBF as a way to position their brand as innovative and impact-focused towards a particular cause/sector. However, there are barriers related to the legal complexities of structuring deals, the risk of outcome failure, and the limited trust that often exists between investors and implementing organisations. One investor commented, "There is still a lack of trust in NGOs, and that creates a significant barrier when it comes to aligning incentives and managing risks." It is also important to note that very few commercial or impact investors have participated in outcome-based financing transactions in India. It is mostly the foundations and institutions who have participated as investors in such transactions as there is a lack of trust among commercial and impact investors in the ability of service providers and limited relative return potential, which begs the question about the pipeline and macro-interest of private investors in such transactions.

Intermediaries view OBF as an opportunity to maximise impact per dollar for their clients, while enabling the scale up of effective programs, supporting innovation, and validating interventions through independently verified outcomes. They highlight the value of building partnerships, organisation capacity, and generating new evidence. However, they also encounter several challenges, including a lack of funds to support transaction design and fundraising, difficulties in multi-stakeholder coordination, and the limited awareness of OBF models in the broader market. One intermediary noted, “There is a definite need to streamline processes and lower the costs for designing these transactions to make OBF more scalable.” High complexity of prominent instruments and legal ambiguities were cited as common challenge in building consensus among multiple stakeholders, most of whom may not be that experimental with their funds.

5.3 Insights From Interviews

Key insights derived from the interviews are discussed as under. They are classified as per the key objectives of the research.

5.3.1 Insights on Key Drivers of Outcome-Based Financing

The interviews with stakeholders reveal several drivers that make outcome-based financing an attractive model for achieving social outcomes:

- **Emphasis on Outcomes:** OBF ensures that the strategic programmatic focus (and payments) is directly tied to measurable outcomes instead of inputs or activities. This shift allows all the stakeholders in a transaction to shift from execution only to look at the effectiveness and innovation of a program in terms of its ability to create strong positive and verifiable outcomes for beneficiaries. One participant highlighted, “OBF ensures that every dollar is spent towards a clear and measurable outcome, making the process effective and accountable towards achieving social outcomes.”
- **Increase in Accountability:** OBF results in a culture of shared accountability and continuous improvement towards achievement of agreed outcomes. While accountability is not sufficient to guarantee success, it provides the necessary directional nudge to enhance program effectiveness and iterate. A respondent mentioned, “The pressure to achieve outcomes pushes us to rethink our strategies and be on a path to constant improvement.”
- **Innovation in Delivery:** The flexibility to co-design and innovate service delivery in OBF models is a significant driver. This encourages organisations to be rigorous in their search for innovation (externally and internally) and to rapidly experiment with different approaches, particularly in areas where traditional methods have failed. As pointed out by a participant, “OBF pushes us to innovate, allowing us to adopt new strategies and models that are better aligned with achieving specific outcomes.”

- **Data-Driven Culture Shift:** OBF transactions require robust Monitoring and Evaluation (M&E) systems since the payments are linked to verified and validated outcomes. This trickles down to a needed shift in culture within service providers to integrate better processes, and understanding systems to manage data. "Data is at the heart of everything we do in OBF—it drives decisions, ensures transparency, and fosters a culture of learning," said one respondent.

- **Alternative Source of Funding to Stand Out:** OBF qualifies as an alternative funding source beyond traditional grants and donations, that gives service providers an opportunity to stand out amongst other organisations for being able to deliver independently verified outcomes, which can potentially increase their value in the eyes of other funders and partners. This diversification is especially crucial for organisations that are smaller in size but have interesting innovations or the ones facing funding shortages to create the necessary evidence and form new partnerships for scaling up. "OBF opens new avenues for us to secure funding, particularly from private investors looking for measurable outcomes," noted a service provider.

- **Culture for High-Performance:** The focus on outcomes through OBF creates a high-performance culture especially within the service providers. Organisations are encouraged (required) to meet performance benchmarks (to access payments), raising the bar for the quality of services, sometimes raising the bar within the sector. One interviewee pointed out, "The accountability linked to outcomes forces us to operate at a higher level and ensure results."

5.3.2 Insights on Key Barriers to Outcome-Based Financing

While OBF holds promise, there are several barriers towards its widespread adoption.

- **Regulation and Compliance:** The regulatory and compliance landscape in India is complex and ambiguous, especially because, given the requirements of OBF, different kinds of legal entities are expected to participate, which fall under different jurisdictions and regulations. This regulatory and compliance complexity, particularly around foreign funding, and CSR regulations, while navigated for a few select transactions, is still reported as a challenge by participants to traverse and build a consensus around. One participant noted, "Navigating India's regulatory landscape is a major challenge, especially when you're dealing with foreign funding and CSR compliance."

- **Complexity of Transaction Design:** OBF transactions (especially development impact bonds and social impact bonds) are perceived as overly complex vehicles, involving multiple stakeholders, legal agreements, and verification mechanisms.

There is a view that this overcomplication (and overengineering) may not be necessary for an outcome funder to pay for verified outcomes, but there are now incentives for intermediaries to address (while also contributing) to this complexity on behalf of the outcome funders who might not have the specialised skills, resources, and network to navigate the intricacy of designing and executing such transactions. This complexity drives up initial fixed transaction time and (sunk) costs, making the model less accessible for smaller organisations and harder to replicate. One respondent shared, "The complexity of OBF deals can be overwhelming—it takes too much time and resources to set everything up, and sometimes the deals still fall through."

- **High Financial Pressures and Cashflow Issues:** Service providers participating in OBF transactions have been reported to face significant cashflow challenges due to delayed outcome payments than planned. This creates financial strain, especially for non-profits who lack access to cash or a working capital facility. One service provider commented, "Managing cashflow is a nightmare—there are months where we were cash negative because payments tied to outcomes were delayed due to so many processes and bureaucracy."
- **Lack of Standardisation:** The absence of standardised outcome financing transaction templates, outcome metric definitions, and outcome rate (price) cards makes OBF transactions difficult to scale and be replicated. Without this, the stakeholders have no choice but to work most of these items from scratch in every new deal. "The lack of standardised templates and benchmarks means that every deal is bespoke, and that adds to the complexity and cost," said an intermediary.
- **Limited Awareness and Negative Perceptions:** There is recognised lack of understanding about how OBF works, its rationale and implications. Many funders and implementers are sceptical of the model due to the strong perception around them, of it being overly complicated, too time consuming and costly without understanding the real reasons and nature behind the complication. One participant remarked, "OBF is often misunderstood—it's seen as a financial tool rather than an impact delivery mechanism focused on outcomes." Another participant said, "In India, OBF is seen as a financial engineering problem but it should rather be seen as intervention engineering to maximise quality outcomes for beneficiaries with minimised resources."
- **Limited Pipeline and Capacity Gaps:** The availability of organisations and projects that can absorb OBF is limited in India, and many organisations lack the capacity in terms of data, team, and operations to implement these models effectively. One respondent noted, "There is a severe lack of projects that are OBF-ready. Even organisations willing to adopt OBF often lack the necessary systems and capabilities."

5.3.3 Insights on Willingness to Participate in Outcome-Based Financing Transactions Again

Despite the barriers, there is optimism amongst the participants to take part in future outcome-based financing transactions because they are convinced of the value and the importance of being focused on outcomes despite the issues. This consensus also highlights the overall belief in the potential of OBF to drive measurable outcomes and create meaningful social impact. As one participant shared, "OBF holds significant promise, but we need to be more pragmatic in its design and execution to ensure that it is scalable and efficient."

However, despite the optimism, the participants also highlighted their preference for much simpler, more streamlined instruments to reduce the cost and time associated with setting up and managing OBF transactions. The complexity in design, lack of standard templates and financial burden of the traditional OBF models were cited as key areas to be improved, particularly for wider adoption and replication. As another participant noted, "We would be more inclined to engage in OBF again, but only if the instruments are simplified. The current structure is too resource-intensive and time-consuming with too many organisations as intermediaries. One should look at disintermediation through technology, standardised systems, and public assets to streamline these transactions."

This insight points to a critical need for innovation in simplifying OBF instruments. While the fundamental principles of OBF—focus on outcomes, stronger accountability, and data-driven decision-making—are appreciated, there is a need to reduce the complexity and costs, making it affordable and accessible for a wider range of stakeholders.

5.3.4 Insights on Potential of Outcome-Based Financing to Become Mainstream

The potential for outcome-based financing to become mainstream (for the purpose of this study, the term mainstream is defined as OBF encompassing over 20% of all donations in the next 5–10-year time frame)—elicited a cautiously optimistic response from research participants. There is a general belief that the principles of OBF will indeed become mainstream, but participants expressed scepticism about whether the current instruments and structures would achieve widespread adoption in their present form.

Key insights from the interviews include:

- **Overcomplication of OBF Structures:** A recurring theme in the interviews was the complexity of OBF transactions, especially in the Indian context. No clear path to navigate legal and compliance ambiguities, difficulty of coordinating with multiple stakeholders (with different and sometimes conflicting interests), and the lack of standardised templates and metrics are all cited as factors that make OBF difficult to scale. "OBF as it stands today is very complex. If we want it to become mainstream, we need to simplify both its understanding and the usable processes, especially for those who are new to this model," said one participant.

- **OBF Principles Over Instruments:** Several participants emphasised that the conversation around OBF should move away from specific instruments (such as development or social impact bonds), given the negative perception, to focus more on the underlying principles of outcome-based financing. This shift can make OBF more accessible and face less friction among potential stakeholders; this, however, can also lead to innovations in instruments and approaches that may result from the adoption of such principles. "The principles of OBF are sound—it is about emphasising on verified outcomes, accountability, and innovation. But we need to stop obsessing (and advocating) over specific instruments and start thinking about how these principles can be applied in a broader range of scenarios," one participant noted.

- **Government Involvement Key to Mainstreaming:** Most participants agreed that government involvement is key to the mainstreaming of OBF especially in the Indian context. It is also important to note that while India has launched many interesting development impact bonds and other outcome-linked instruments (social success notes, outcome-linked guarantees and others), it has still not successfully deployed, despite many past and current attempts, a social impact bond in the traditional sense, in which the government has participated as an outcome funder for delivery of public service. Many participants felt that government buy-in, both as co-signatory and key stakeholder in the transactions, would be a major factor in scaling the model in India. One respondent commented, "For OBF to go mainstream, we need governments to step in and take the lead in building this market. Without their involvement, it will remain a niche model."

- **OBF May Suit Specific Sectors:** Participants agreed that OBF may particularly suit certain sectors and social issues, such as education, healthcare, and homelessness, where the outcomes are easy to define, measure and verify but also in which more importantly, traditional funding mechanisms have not always been effective. However, participants also pointed out that not all sectors and issues may be ideal for OBF, especially where either outcome is not easy to define or measure or independently be verified or where the output-outcome causality is well demonstrated, payments tied to inputs and activities correspond to outcomes. “OBF works well when you are dealing with complex, long-term social issues. But for simpler interventions, like vaccinations, traditional grants may still be more effective in driving adoption,” noted one participant.

- **Potential for Market ‘Barrelling’:** Some participants pointed out that OBF may involve a ‘barrelling’ of the market, where specialised grants and traditional philanthropic funding will coexist with mainstream OBF models applied to specific issues or sectors, bifurcating the market of development finance. “We might see a situation where traditional grants remain the dominant form of funding, but OBF is used for specific, complex challenges,” remarked one stakeholder.
- **Growing Intellectual Capital, Assets, and Awareness:** There is an increasing optimism on the future of OBF, primarily being driven by increasing intellectual capital, assets, and awareness within the sector and its socialisation with the wider economy. “The more we learn about OBF and the more successful stories we have to tell, the easier it will be to scale and replicate these models,” said one participant.

6. New Insights on Outcome-Based Financing

The interviews with research participants also resulted in new unexplored insights and nuances from real-world experiences, that are important in adding depth to the understanding of OBF, especially in the Indian context. These insights reveal new challenges, opportunities, and evolving perceptions on OBF that participants have shared from their practice. A few such insights are discussed below:

- **Financial Pressures Leading to High Attrition Rates:** One significant insight from interviews was around the financial pressure experienced by service providers in India. The participants reported losing key team members (high program staff attrition) due to the immense pressure of delivering outcomes within the tight deadlines associated with OBF funded programs. From an organisation improvement standpoint, this may be a characterising feature of OBF as the teams are pushed to grow, upgrade skills, and adopt data-driven processes, the reality is that it often leads to unsustainable stress that may lead to attrition of some talent but inclusion of new talent is necessary for service delivery. This facet also highlights a disconnect between outcome funders and service providers, particularly in terms of setting the expectations and defining achievable outcome metrics within agreed timelines. As one service provider remarked, "Our teams were pushed beyond their limits to deliver outcomes, but without the right capacity-building support from funders, this led to a lot of burnout and attrition." This speaks to a misalignment in expectations and a need for more collaborative expectation setting that also considers the external factors that affect the outcomes, which sometimes may not be in the control of the service providers.

- **Standardisation of Outcome Definition, Pricing and Measurement:** A major bottleneck as per participants is the lack of definitions for standard outcomes and pricing benchmarks in India. Outcome funders and intermediaries both mentioned that building consensus and shared understanding around metric definition and pricing of those metrics takes a lot of time and effort. This is particularly challenging in the Indian context, where there seems to be a trust deficit in data shared by service providers and government compared to developed countries like the UK, where government-administered rate cards and reported data are sufficient for facilitating OBF transactions. As one intermediary pointed out, "In the UK, you can rely on government benchmarks and existing data as shared by service providers, but in India, every transaction feels like you're starting from scratch—it's much harder to align everyone." This further increases additional cost, complexity, and duration of setting up and building consensus in OBF transactions in India, exacerbating concerns around scalability and adoption.

- **Stakeholder-Specific Priorities and Differences:** The research also points out differences in the priorities of different stakeholder groups in an OBF transaction, underscoring a lack of a unified narrative. Each group views the benefits and challenges through a distinct lens:

    - **Intermediaries** focus mainly on the complexity of OBF transactions, particularly in terms of designing these transactions, multi-stakeholder coordination and building a pipeline of fundable projects.

    - **Outcome funders** focus with increased emphasis on measured outcomes, cost-effectiveness of interventions and innovations that are scaled up. They are reported to be concerned with the quality of data and the risk of misrepresentation, which could lead to reputational risks. One funder said, "We want to achieve better outcomes for our beneficiaries, but we also need to be careful if data is modified or manipulated under pressure with perverse incentives."

    - **Risk investors** focus on the achievement of social outcomes that determine their financial return, alongside concerns about legal complexities and data transparency. Investors have expressed a desire for predictable outcome models, saying, "We need more trust in the data and the capability of the service providers to achieve the outcomes, and without that, the risk is just too high."

- **Service providers** focus on the pressures associated with expectations, issues with cash management and the high demands on performance, even as they acknowledged the role OBF plays in organisational learning and system improvement, which may not be easy but are worthwhile to understand from a long-term standpoint.

These differences point to the need for more stakeholder-specific frameworks and support systems that address each group's unique concerns.

- **Local Contextual Differences in India:** Global research participants pointed out that local contextual factors—such as the lack of reliable data, limited ecosystem infra, systemic challenges and complex regulatory landscape—can slow down further adoption of OBF models. One participant shared, "In India, the process of designing outcome-based financing transactions is overengineered, and a lot of that is due to the need for financial engineering to navigate complex regulations. But it shouldn't be about the right financial structure, it is about creating better outcomes with simpler interventions for efficiency." The study also showed a disconnect between how OBF transactions are designed and perceived in India versus global counterparts. There is a greater focus on financial engineering in India (which may be justified given the regulatory and compliance complexity), rather than focusing on intervention engineering to maximise social outcomes with least cost, time, and effort.

- **Evolutionary Path of OBF—First and Second Decades:** Several participants reflected on the evolutionary path of OBF, describing the past decade as a learning phase (Phase 1) where stakeholders engaged in OBF primarily to test whether the model could drive better outcomes. As a senior participant noted, "The first decade was all about building the evidence base and demonstrating that OBF can work in practice. Now, the question is, how can we mainstream this approach?" The coming decade (Phase 2) is expected to focus on scaling innovations and adopting new technologies, such as digital marketplaces and blockchain-based systems. Participants also expressed optimism about the future of OBF especially on the various technical innovations, noting that these tools will likely reduce costs and complexities, thus making OBF more scalable.

- **Cash Flow Issues and Financial Burden:** Cash flow delays emerged as a key issue faced by service providers as they faced difficulties in managing financial pressures to perform with low cash balances. Due to the long processes for validating outcomes, approving disbursements, and releasing funds, service providers faced financial strain and pointed out that many small to medium sized organisations might not be able survive in these conditions. One participant also mentioned, "We had to take out an overdraft just to keep the project going because the payments were so delayed without relaxation in the expected results." This indicates a critical need for better financial management tools and faster approval cycles in OBF transactions to alleviate such burden on service providers, to help them place all of their focus on outcomes and less on struggling to survive.

6.1 New Insights on Possible Barriers to Main streaming OBF

This section discusses a few objections and counter-arguments against OBF that emerged during the interviews. They reflect specific characteristics of OBF and perception around it that may serve as barriers in its widespread adoption and mainstreaming.

One of the counter arguments highlights a key implicit underlying assumption behind OBF, which is that it assumes that the reason social outcomes are not achieved in traditionally funded development programs is because payments were not tied to outcomes. A few research participants challenged this assumption, arguing that there are organisations, programs, and interventions, mainly market-based and government-led, which have achieved strong outcomes without payments being linked to independently verified outcomes or performance metrics, but due to better intervention or program design, technology integration and implementation rigour. A participant also noted, "It's not always about tying payments to outcomes, we must also learn from successful programs, which have succeeded simply because they were well-designed from the start and had used data from the field for constant improvements." This points to a much holistic view of expected success, where the quality of the intervention itself, rather than the payment trigger, drives positive social impact.

Further, participants also cited examples from the healthcare sector where linking payments to patient health outcomes in the past, had led to perverse incentives and unintended consequences and undesired (and unethical in some cases) behaviour by carers and health professionals. This has, in some cases, resulted in sub-optimal care for patients, as providers focused on the achievement of patient metrics tied to financial rewards rather than ensuring their broader well-being. A similar critique was voiced regarding education, where a singular focus on certain specific educational outcomes may oversimplify and lead to neglect the other complex range of factors that influence the holistic learning of students. These critiques suggest that OBF, while valuable in some contexts, might lead to ignorance of other outcomes that may not be tied to payments but were critical in ensuring high quality beneficiary outcome in the long-term, especially in sectors where success cannot be reduced to a single metric only.

Another notable counter argument was centred around flexibility and innovation in service delivery. Some participants pointed out that in multiple outcome-based financing transactions, either as social impact bonds or development impact bonds, same programs from top organisations that were funded previously through grants, are now being supported through OBF, often without any new innovations and without yielding any disproportionately better results than when grant funded. One participant remarked, "We're funding the same programs we were before, but just calling it outcome-based now with more complexity and celebration." This reflects a conservative approach, where the OBF stakeholders may take a risk-averse path by working with large and established organisations and by selecting only the most proven and trusted interventions. This contradicts one of the stated goals of OBF which is to encourage innovation by testing and scaling novel solutions. The lack of truly innovative and eligible projects being funded under OBF calls into question the model's ability to drive breakthrough approaches that can create positive outcomes at scale.

Finally, some participants also pointed out a disconnect between the heightened celebration of OBF in public discourse versus actual growth in the number of transactions and the number of unique (or new) stakeholders who participated. While OBF has gained traction globally as an exciting and innovative financing alternative for better outcomes, the tangible evidence of its success remains limited, especially in comparison to the status quo. Several interviewees noted that the number of actual transactions and the number of new stakeholders participating in OBF deals have grown at a slower pace than expected. "There's a lot of excitement around OBF, but the reality is that it's not as widespread as the conferences and industry report would suggest," noted one expert. This points to a gap between perception and reality, suggesting that while OBF has potential, it is still nascent and may require significant refinement before it can be widely adopted, especially to come in a form that is scalable and replicable.

Thus in summary, while OBF is promising as a financing mechanism, these counter arguments highlight the need to address key objections among various stakeholders to ease the acceptance and adoption of this approach. There is also a risk that some of its inherent assumptions might overlook other fundamental issues and gaps that may exist, related to better service delivery, innovation and stakeholder engagement, which must be addressed for the model to be scalable.

6.2 Specific Insights from Research Participants on Mainstreaming OBF

This section showcases a few quotations shared by research participants during interviews as specific highlights, insights and recommendation in the context of the research. Publication permission has been taken from them before publishing.

Table 2: Quotations from Research Participants

Name	Key Learnings and Recommendations (Individual permission to take)
Sustainability team, HSBC	"For Outcome-Based Financing (OBF) to be successful, a long-term investment mindset is essential. Practitioners must recognise the potential for failure due to the complexity of external factors and the limitations of available data. Additionally, the risk of data manipulation in what is captured, represented, and reported needs to be carefully managed to ensure accurate outcomes."
Saumya Lashkari (360 ONE Foundation)	"Outcome-based contracts drive a culture of improved performance and learning year on year for development projects. By linking payments to the achievement of clearly defined, measurable outcomes that are independently verified (as opposed to actions, inputs, and activities), funders can improve: • Efficiency of donor spending and reduce the risk of funding programs that don't work. Encourage robust performance management and data-driven decision-making. • Effectiveness of programs. While there is an appropriate transfer of risk onto the implementing non-profit, underperformance provides an opportunity to course correct and re-engineer program delivery until desired outcomes are delivered. Non-profits are given Flexibility to innovate on delivery processes. Stronger programs are built that are poised to scale, and attract more funding in future • Much-needed governance, transparency, and accountability in the sector. Overall, they are a win-win... incentivise performance and improvement in programs and funding. Misconceptions about OBF's use cases do persist. It's not milestone-based funding. It is not suited for pilots or moonshot innovation... it works well for scaling proven models with strong evidence of outcomes after the initial R&D or pilot phase. It is not simply an instrument or financing tool. Yet, it does not need to be expensive, complicated financing instruments designed primarily by intermediaries. OBF does not always require a risk investor.

	OBF is more of a philosophy. It's a culture of continuous learning and improvement and increased performance year on year. It's an innovative 'delivery' mechanism that leads to superior outcomes. It allows us to keep impact outcomes at centre, and design everything around that. It allows philanthropic capital to work harder and smarter. So, keep it simple. Focus on the underlying principles of aligning payouts to performance. This shift in perspective is key for the broader adoption of OBF."
Sietse Wouters (UBS)	"The focus has shifted too much towards investors, implementers, and intermediaries in OBF. The initiatives should originate more from donors and beneficiaries, rather than being driven primarily by intermediaries who champion these models."
Gautam Chakraborty (USAID)	"Outcome-based financing drives positive and verified outcomes in (the) shortest time and cost at scale, but it is not the silver bullet for every problem. Every impact cannot and should not be reduced to a discrete number and be priced."
Amit Shah (Bridges)	"Outcome-based financing is not an innovative "financing" mechanism but a mechanism to drive innovative "delivery", and it is innovation in delivery which leads to more efficient, effective services resulting in superior social outcomes."
Tushar Thakkar (Dalberg)	"For philanthropies that participate in OBF is that they will need to create structures which allow for repeated implementation in these OBF implementations in particular sectors. Rather than trying to do this as individual transactions at each point of time, having a portfolio approach derisks all of their transactions. Rather than trying to take a risky approach of doing one transaction at a time, having professionals who are managing that fund, who do this for a living can also help bring in efficiencies."
Anushree Parekh (British Asian Trust)	"It is crucial to elevate the conversation beyond the instruments of OBF and focus on the underlying principles that make it effective. This shift in perspective is necessary for the broader adoption and success of OBF."
Aparna Dua (Asha Impact)	"Access to high-quality data on standardized impact metrics and pricing benchmarks can significantly reduce the time and cost involved in structuring OBF transactions. This would streamline the process and make it more accessible to a broader range of stakeholders."
Kartik Desai (D&A)	"High-net-worth individuals (HNIs) and family offices can play a critical role in scaling OBF, especially as regulatory and compliance issues may limit the participation of foreign funders and domestic CSR. NGOs are beginning to see OBF as a complement to traditional grant-making, particularly useful for scaling proven models after the initial R&D phase."

Kumar Subramanium (Sculpt Partners)	“Outcome-based financing is not a silver bullet but just a part of the overall development sector, and is recommended only when it is arrived as a potential solution logically. Plus, there is a lot of upfront time that goes into convincing stakeholders and breaking organisational inertia with regards to such structures with limited evidence.”
Stef Ridenour (Levoca)	“Outcomes-based financing is becoming a practice that encompasses different tools and approaches, and the goal is to enhance impact and development effectiveness. The mechanism or the product matter less than the outcomes - and it's about creating that culture of learning, adaptability, and performance.”
Dhir Jhingran (LLF)	“For OBF to achieve scale, collaborative efforts with government and systemic integration are crucial. OBF offers a unique opportunity for NGOs to enhance their data culture and leverage it to improve any programmatic efforts."
Arun (Magic Bus)	"The initial phase of Outcome-Based Financing is progressing well, but diligent efforts are needed to secure government buy-in. With public funds still largely input-driven, raising awareness and advancing the adoption of OBF into the next phase are essential for better outcomes."
Manmohan (Kaivalya)	"Openness to change and evolving the OBF model are crucial for achieving the ultimate goal of improving lives. It is important to focus on long-term impact rather than getting lost in short-term results. India needs a diverse toolkit, and different tools will encourage innovative thinking."
Celeste (Village Enterprise)	“One should consider outcome-based financing if they want to prioritize the cost-effectiveness of their interventions, if they expect that this will lead to more funds immediately, that may not be the case, since this is a long-term investment in your organisation.”

7. Conclusion And Recommendations

The findings from this study reveal that while outcome-based financing holds significant promise as a model for driving accountability, innovation, and measurable social impact, several barriers must be addressed to unlock its full potential.

7.1 Summary of Findings

This section summarises the research findings, discusses their implications for practitioners, identifies the study's limitations, and suggests areas for future research.

- **Mainstreaming OBF:** The study underscores the fact that while OBF is poised to grow, its mainstream adoption—where it constitutes over 20% of all donations—remains a significant challenge. Although there is optimism about OBF's future, its complexity, legal hurdles, and cost-intensive nature continue to act as barriers. As a financing mechanism, OBF has gained traction but still requires significant refinement and simplification to scale widely. The focus must shift from using OBF as a novel instrument to embedding outcome-based principles into development financing models.

- **Key Drivers:** The drivers for OBF in the Indian context align well with global practices. Key drivers identified in the study include the shift toward verified, measurable outcomes, increased accountability, and the potential for flexibility and innovation in service delivery. Stakeholders, particularly outcome funders, are drawn to the potential for risk transfer, financial additionality, and strategic alignment with long-term social outcomes. The ability to catalyse new partnerships and diversify revenue streams also emerged as central drivers of interest in OBF transactions.

- **Key Barriers:** On the flip side, the most pronounced barriers include the time, cost, and complexity of setting up and managing OBF transactions. Legal and regulatory ambiguity, particularly in the Indian context, adds layers of difficulty to what is already a multifaceted model. The lack of standardisation in outcome definitions and pricing, coupled with cash flow issues faced by service providers, exacerbates the operational challenges. Many stakeholders, particularly smaller NGOs and service providers, struggle to meet the stringent requirements imposed by OBF models, leading to concerns around equity, capacity, and sustainability.

- **New Insights Paving the Path for Innovation:** The research provides fresh insights, particularly around the emerging need for simpler, less resource-intensive models. Practitioners highlighted the importance of streamlining OBF processes, improving collaboration between stakeholders, and introducing more flexible models to accommodate the challenges inherent in social development. There is also growing recognition of the need for deeper government involvement, especially in creating conducive regulatory frameworks and addressing the systemic issues hampering OBF's scalability.

7.2 Implications For Practitioners

The findings from interviews result in practical implications for practitioners across the philanthropy, investment, and development sectors in relation to OBF. These implications offer a roadmap to overcome barriers and unlock the full potential of OBF as a powerful tool for development financing as summarised under:

- **Need to Simplify and Standardise:** A recurring theme across interviews was a strong need to simplify and standardise OBF in the Indian context. Practitioners should focus on ways to simplify OBF instruments and to create standards around outcome metrics, templates, and processes such that they can be readily adopted by other players across sectors. This is expected to reduce the time and cost of setting up OBF transactions and remove barriers for new organisations to participate or anchor such transactions.

- **Cost Reduction and Efficiency:** The high transaction costs of OBF across the stages—design, fundraising, stakeholder negotiations, navigating legal and satisfying rigorous M&E requirements, is a major challenge. Practitioners need to find creative ways to streamline these processes, potentially through the use of digital tools, shared assets/resources, relying on simpler M&E systems and tech driven disintermediation. By reducing costs, more OBFs can be designed and launched, creating a vibrant, broader, and more sustainable ecosystem.

- **Need for Capacity Building:** A key barrier related to service providers identified in the research is the lack of capacity of many organisations, especially in the Indian context, to absorb this type of capita and to meet all of its demands. Practitioners need to prioritise capacity-building efforts to improve financial management, organisation talent and structure, data systems and performance reporting capabilities. Without significant investment in capacity-building, many service providers will stay excluded from OBF opportunities, limiting its reach and impact.

- **Need for Regulatory and Legal Clarity:** There is a need to engage with policymakers and regulatory bodies to clarify the ambiguities and also, to advocate for a much clearer compliance structure. Practitioners should work together to recommend policies to simplify compliance regarding foreign funding, CSR usage, and reporting to facilitate OBF transactions.

- **Tailored Approaches:** Each stakeholder group that is involved in OBF such as outcome funders, risk investors, intermediaries, and service providers, has their own motivators and risks/concerns. Therefore, a "one-size-fits-all" approach is not recommended and is not feasible. Practitioners should adopt stakeholder-specific strategies to account for these differences. For example, outcome funders and investors may need robust outcome verification mechanisms, while service providers might need additional financial support for capacity building and to manage working capital shortages.

- **Need to Involve Government:** Government participation in OBF is key for its long-term sustainability and wider adoption. Practitioners need to actively seek government involvement, whether as a funder or as support. Pilot projects with governments that demonstrate the effectiveness of OBF and build confidence in public sector programs can pave the way for better policy engagement and greater support from governments.

- **Focus on Outcomes Culture:** To fully embrace OBF and its potential, organisations need to shift towards an outcome-oriented culture. This means adopting data-driven decision-making, continuous improvement cycles and accountability frameworks into everyday programmatic operations. Organisations that adopt this mindset will be more equipped to deliver superior verifiable results, improving performance and unlocking new funding opportunities.

- **Need for Advocacy and Awareness-Building:** The study realises that building a broader (and shared) understanding and acceptance of OBF among donors, investors, and policymakers is essential for its mainstreaming. Practitioners should engage in advocacy and awareness-building efforts, sharing success stories and educating stakeholders about the value of OBF. By fostering a more informed ecosystem, OBF can become a well appreciated and accepted tool for addressing social challenges.

7.3 Limitations of the Study

This study has several limitations, both in terms of research design, scope, and contextual challenges within the field of OBF. Despite the comprehensive methodology including a literature review, hypothesis formation, and primary data collection through surveys and interviews, the study faced constraints that may affect the generalisability and extrapolation of the findings.

- **Geographic and Contextual Scope:** While this research offers valuable insights into the adoption of OBF in India, it is primarily contextualised within the Indian social and regulatory environment. As a result, some findings may not be directly applicable to other regions with different legal frameworks, social structures, or funding ecosystems. Experiences and perceptions of participants are highly specific to the Indian context, where regulations around corporate social responsibility (CSR) and foreign funding differ significantly from global standards. Thus, the study's findings might not fully capture the diversity of global OBF practices. Future research should aim to compare the Indian context with other geographic regions where OBF has been implemented to provide a more global perspective.

- **Qualitative Component and Subjectivity:** The research relied on qualitative data derived from interviews with key participants. While the interviews provided rich and nuanced insights into the drivers and barriers of OBF, they are inherently subjective. Views of the participants may have been influenced by their personal experiences, organisational roles or even the specific timing (stage of the market) of their involvement in OBF transactions. Additionally, qualitative insights cannot always provide a clear, quantifiable measure of success or failure, making it difficult to draw generalisable conclusions about OBF. While the qualitative focus allows for depth, future studies should complement these insights with adequate quantitative data to support them with tangible evidence.

- **Limited Participant Pool:** The study engaged 16 respondents out of a pool of 37 research participants, representing a diverse range of actors from outcome funders, intermediaries, risk investors and service providers. However, this small sample size can introduce a potential sampling bias, particularly as the responses may not fully represent the broad spectrum of stakeholders engaged in OBF transactions, and from the fact that these participants are all converts in a way. Moreover, while the sample included global actors involved in Indian OBF projects, it does not account for other stakeholders with OBF operations solely outside India. This omission can limit the applicability of findings, particularly on the global scalability of OBF. Expanding the sample to include a more comprehensive range of global participants could provide a more holistic understanding.

- **Temporal Constraints and Short-Term Perspective:** The study was conducted over a limited timeframe, primarily focusing on recent OBF transactions. This short-term perspective may overlook the long-term impact and sustainability of OBF models. Several interview participants noted the importance of assessing OBF outcomes over longer periods to capture the full benefits and challenges, particularly in terms of financial sustainability and capacity-building. "The real test of outcome-based financing lies not in its immediate impact but in how it sustains over time," remarked one participant. Longitudinal studies that track the progress of OBF initiatives over multiple years are needed to evaluate whether they can consistently deliver the promised social and financial returns.

- **Limited Exploration of Technological Integration:** While the study touches upon the need for more efficient monitoring and evaluation systems, it does not fully explore how technological advancements—such as blockchain, artificial intelligence, or big data analytics—could address some of the challenges associated with OBF transactions. The absence of a detailed analysis on this front, limits the study's contribution to discussions on how digital tools might streamline processes, reduce costs, and improve transparency. Future studies should delve deeper into how technology could reshape OBF ecosystems and potentially overcome existing barriers like complexity, high costs, and time delays.

- **Lack of Quantitative Financial Analysis:** Though the study provides valuable insights into the qualitative experiences of OBF stakeholders, it lacks a detailed quantitative financial analysis that could help assess the economic efficiency of OBF models. For example, a cost-benefit analysis comparing OBF models to traditional grant funding could have provided a clearer picture of OBF's value proposition. Additionally, the study does not quantify the financial pressures faced by service providers in OBF transactions, which could have been supported through financial data from ongoing or completed OBF projects. Future research should employ more quantitative methodologies to evaluate financial sustainability and cost-efficiency. It is to be noted that this study undertook an exploratory approach to reveal key hypotheses behind the drivers and limiters of outcome-based financing from an extensive literature review and stakeholder consultation for primary data. No hypothesis testing was done in terms of statistical analysis or modelling, which can be the next step.

- **Limited engagement of Government Stakeholders:** The study, while providing valuable insights into the drivers and barriers of outcome-based financing among stakeholders, did not include direct engagement with the Indian government to understand its perceptions and motivations, regarding participation in OBF transactions in the country. This is a limitation of this study that needs to be explored further, as governments play a pivotal role in shaping the OBF ecosystem globally. In other countries, governments have actively participated as outcome funders in OBF models, contributing to effective public spending and maximising social outcomes. Their involvement has often led to the creation of robust public assets, such as reliable administrative data, standardised outcome metrics, and outcome rate cards, which lower transaction costs and improve scalability of outcome-based financing transactions. However, in India, government participation in outcome-based financing has been notably limited. This is a key gap, as government entities hold the potential to directly fund outcomes and indirectly catalyse an enabling ecosystem by enacting enabling policies, regulatory frameworks, and public infrastructure. Given the government's dual role as a potential outcome funder and facilitator, understanding their motivations, challenges, and strategic priorities is crucial for mainstreaming OBF in India. Investigating the reasons for their limited involvement—whether due to regulatory ambiguity or capacity issues—and identifying pathways to increase their engagement could unlock significant potential for OBF adoption in India. Future research should focus on engaging government stakeholders, exploring how their participation can enhance the effectiveness and scalability of OBF transactions.

In summary, while this study offers significant contributions to the understanding of OBF in India, the limitations identified—geographic scope, reliance on qualitative data, sampling bias, short-term focus, technological gaps, and absence of financial analysis—highlight areas for further research to build a more comprehensive understanding of the OBF landscape.

7.4 Implications For Future Research

Given the limitations of this study and the evolving nature of outcome-based financing, several key areas for future research have emerged. Addressing these gaps will not only deepen the understanding of OBF but also facilitate its wider adoption and scalability.

- **Standardisation of Metrics and Rate Cards:** One of the most significant challenges identified in this study is the lack of standardised outcome metrics and rate cards, particularly in the Indian context. Future research should focus on developing uniform metrics for evaluating social outcomes across different sectors and regions. This would involve collaboration between governments, non-profits, and private sector actors to create a shared framework that simplifies the process of defining, measuring, and pricing outcomes. A comparative study between countries with mature OBF ecosystems (such as the UK) and emerging markets like India could offer valuable insights into how investment in high quality data systems and standardisation efforts at national level can drive the scalability of OBF models that result in data that is trusted, rigorous, accurate, objectively defined and generally accepted.

- **Longitudinal Case Studies on OBF Impact:** As highlighted in the limitations, the short-term focus of this study precludes a full understanding of the long-term impact and sustainability of OBF models. Future research should employ a longitudinal approach, tracking OBF projects over several years to evaluate their enduring social and financial outcomes. These case studies could provide critical insights into whether OBF can deliver on its promise of creating scalable, sustainable impact. Moreover, these longitudinal studies should also examine the ripple effects of OBF transactions on organisational culture, capacity-building, and partnerships, which are often not immediately visible in short-term evaluations.

- **Technological Integration in OBF:** The integration of technology into OBF remains an underexplored area, despite its potential to transform the field. Future studies could investigate how emerging technologies—such as blockchain for transparent contract execution, AI for predictive impact measurement, and big data analytics for real-time M&E—can be harnessed to reduce costs, improve transparency, and increase efficiency in OBF transactions. Research into these areas could offer solutions to some of the most persistent barriers, including high transaction costs and complex coordination between multiple stakeholders.

- **Regulatory and Policy Frameworks:** Another critical avenue for future research is the exploration of regulatory frameworks that can support the mainstreaming of OBF. The study highlights the need for clearer legal guidelines, particularly in India, where foreign funding regulations and CSR compliance create complexities. Researchers should examine how regulatory environments, such as SEBI's Social Stock Exchange in India, can be leveraged to facilitate OBF. Researchers can also conduct comparative studies across regions or countries with different market infrastructure and legal regimes to source valuable insights on how to align legal frameworks with the needs of OBF transactions.

- **Quantitative Analysis of OBF's Financial Efficacy:** While the current study focused on qualitative insights, future research can include quantitative methodologies to develop a better understanding of OBF models, and guide the adoption (or diffusion) of this approach with specific quantitative assumptions. This can include cost-benefit analyses and comparison of OBF to traditional grant-based models and financial modelling exercises.

- **Behavioural and Organisational Change in OBF Transactions:** A key finding from the study is that OBF can create unintended pressures on all stakeholders, including service providers, outcome funders and risk investors to deliver results under tight timelines, which can lead to high staff attrition and other organisational challenges which require mindset and behavioural shifts from traditional grant making. Future research should delve into the behavioural and organisational impacts of OBF on service providers, including studies on change management, strategies for enhancing capacity to meet OBF demands, and ways to mitigate the stress associated with performance-based models.

Thus in conclusion, future research should address the key limitations of this study and focus on gaps identified such as standardisation, technology integration, regulatory frameworks and better understanding of the behavioural aspects of OBF. Additionally, longitudinal studies and cross-sectoral research can provide deeper insights into the scalability and sustainability of OBF, along with a stronger emphasis on organisational behaviour. This will also improve our understanding of how to build a more resilient OBF ecosystem. By expanding research into these areas, researchers can further contribute to the mainstreaming of outcome-based financing.

Declaration of Conflict of Interest

The author(s) declare no conflict of interest related to this study. All data and findings presented in this report are based on independent research and analysis.

Declaration of Generative AI and AI-Assisted Technologies

In preparing this manuscript, I/we have/have not used AI tools and I/we take full responsibility for the content.

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Appendices

Appendix 1: List of Research Participants

Participant Type	Person Name	Organisation Name
Outcome Funders	-	**HSBC**
Outcome Funders	**Saumya Lashkari**	**360 ONE Foundation**
Investors (OBF)	**Sietse Wouters**	**UBS**
Investors (OBF)	**Gautam Chakraborty**	**USAID**
Investors (OBF)	**Amit Shah**	**Bridges**
Intermediaries	**Meyyappan Nagappan**	**Trilegal**
Intermediaries	**Tushar Thakkar**	**Dalberg**
Intermediaries	**Anushree Parekh**	**British Asian Trust**
Intermediaries	**Aparna Dua**	**Asha Impact Trust**
Intermediaries	**Kartik Desai**	**D&A**
Intermediaries	**Kumar**	**Sculpt Partners**
Intermediaries	**Stefanie Ridenour**	**Levoca**
Service Providers	**Dhir Jhingran**	**LLF**
Service Providers	**Arun Nalavadi**	**Magic Bus**
Service Providers	**Manmohan**	**Kaivalya**
Service Providers	**Celeste Brubaker**	**Village Enterprise**

Appendix 2: Interview Guide

The following key interview questions were used to gather qualitative insights from stakeholders involved in Outcome-Based Financing (OBF) transactions, including outcome funders, risk investors, service providers, and intermediaries. The questions were designed to identify the drivers, barriers, and future prospects of OBF in the Indian context.

- **Your Role:** Can you briefly describe your role in your organization and your involvement in outcome-based financing transactions?
- **Top 3 Drivers for Participation in OBF:** What are the top three drivers that motivated you and your organization to participate in outcome-based financing models such as impact bonds?
- **Top 3 Barriers Faced in OBF:** What are the top three barriers or challenges you and your organization encountered during the structuring and implementation of outcome-based financing transactions?
- **Would you Participate Again?:** Based on your experience, would you consider participating in an outcome-based financing transaction again? Why or why not?
- **Do you Think OBF Will Become Mainstream?:** In your opinion, do you believe that outcome-based financing will become mainstream in India? If yes, what factors will drive this? If no, what are the limiting factors?
- **Key Learnings and Recommendations:** What are the key learnings you have gained from your experience with outcome-based financing? Do you have any recommendations for practitioners or stakeholders looking to engage in OBF transactions?

These questions were used to extract detailed information about the motivations, challenges, and perspectives of various stakeholders involved in OBF transactions, providing a robust foundation for the study's findings and analysis.

Appendix 3: Survey Design Sample

Importance Rating Schema:

Rate each hypothesis using the following scale:

1: Not Important

2: Less Important

3: Somewhat Important

4: Very Important

5: Extremely Important

Sample Survey Questions

1. Key Drivers for Participation in OBF:

Rate the importance of these hypotheses (for Drivers):

- Flexibility to use funds and service design
- Build and demonstrate evidence for outcomes
- Improvement in Monitoring & Evaluation (M&E) and performance systems
- Expertise from partners
- Unlocking future funds

Rank order of the hypotheses (for Drivers):

- Flexibility to use funds and service design
- Build and demonstrate evidence for outcomes
- Improvement in data, M&E, and performance systems
- Expertise from partners
- Unlocking future funds

Open-ended response:

- Any other driver

2. Key Barriers to OBF:

Rate the importance of these hypotheses (for Barriers):

- Time, cost and complexity
- Limited capacity and systems
- High delivery and accountability pressure for results
- Limited Initial Working Capital
- Uncertainty of future funds

Rank order of the hypotheses (for Barriers):

- Time, cost and complexity
- Limited capacity and systems
- High delivery and accountability pressure for results
- Limited initial working capital
- Uncertainty of future funds

Open-ended response:

- Any other

Customisation for Stakeholder Groups:

The survey design acknowledged that drivers and barriers differ for each stakeholder group:

- **Outcome Funders** focused on verified outcomes, innovation, and alignment with strategic goals.
- **Risk Investors** prioritised financial returns, risk transfer, and outcome performance.
- **Service Providers** emphasised flexibility in execution, capacity for innovation, and building evidence.
- **Intermediaries** highlighted coordination complexity, scalability, and creating partnerships.

Appendix 4: List of Industry Reports

S.No.	Report Name	Organisation	Year
1.	**The Why and How of Blended Finance**	**IFC, World Bank**	2020
2.	**Unlocking The Promise of Blended Finance In India**	**IIC**	2023
3.	**Village Enterprise DIB Report**	**Village Enterprise**	2022
4.	**Utkrisht Impact Bond**	**USAID**	2022
5.	**Structuring & Funding DIBs for Health**	**CGD**	2018
6.	**Social Impact Investing in India**	**Nishith Desai**	2018
7.	**Investing in Social outcomes: DIBs**	**Social Finance**	2013
8.	**Understanding SIBs**	**OECD**	2016
9.	**Quality Education India: DIB Evaluation Report**	**Ecorys**	2021
10.	**Can impact bonds deliver better results, faster and cheaper?**	**World Bank**	2017
11.	**Service Provider Readiness : Executive Summary**	**GO Labs**	2020

12.	**Blended Finance Public Consultation Note**	**OECD**	2020
13.	**Paying for Outcomes on Mental Health**	**HBGI**	2023
14.	**Pay for Success: The First Generation**	**Nonprofit Finance Fund**	2016
15.	**Blended Finance Guidance**	**OECD**	2021
16.	**Impact Bond and Maximising Finance for Development**	**World Bank**	2019
17.	**Leverage of Concessional Capital**	**Convergence**	2018
18.	**Bridging Perspectives: Innovative Finance Insights from India**	**ISDM**	2023
19.	**Dedicated to Impact Finance**	**Innpact**	2019
20.	**Impact Bonds in Developing Countries**	**Brookings**	2017
21.	**Impact Bonds: Considerations for Investment Returns and Pricing of Outcomes**	**World Bank**	2019
22.	**Blended Finance: Stepping Stone to Creating Markets**	**IFC, World Bank**	2018
23.	**Outcomes Contracting Capacity Building Workshop: Evolving Contracting & Maximising Impact**	**HBGI**	2023
24.	**Outcomes Contracting Capacity Building Workshop: Performance Management**	**HBGI**	2023
25.	**Foundations for Social Impact Bonds**	**Social Finance**	2014
26.	**Educate Girls DIB: Design Document**	**Instiglio**	2015
27.	**Do Impact Bonds Affect the Ecosystem of Social Services Delivery and Financing**	**Brookings**	2017
28.	**Understanding the DIB Effect**	**GO Labs**	2023
29.	**Designing a Results-Based-Financing Model**	**IADB**	2021
30.	**A new marketplace for common good**	**Common Good Marketplace**	2021

31.	**Aspire Social Impact Bond**	**Social Ventures Australia**	2020
32.	**Evaluation of Aspire Social Impact Bond: Final Report**	**University of Western Australia**	2022
33.	**Reimagining Healthcare in India through Blended Finance**	**NITI Aayog**	2022
34.	**Primer on Impact Bonds**	**MicroSave Consulting**	2021
35.	**Educate Girls: Improving the Quality & Outcomes of Girl's Learning**	**World Bank**	2017
36.	**Evidence & Insights on OBF from India**	**GO Labs**	2023
37.	**Results-Based-Financing Report**	**Climate Policy**	2021
38.	**Introduction to Outcome-Based-Financing**	**GPRBA**	2020
39.	**Outcomes-based financing: What do non-profits need to know?**	**India Development Review**	2023
40.	**Outcome-based financing for service delivery**	**GO Labs**	2021
41.	**Tying funding to results**	**GSG**	2021
42.	**Outcomes-Based Funding in Historical & Comparative Context**	**Lumina Foundation**	2015

Appendix 5: List of Public Transaction Documents

S.No.	Transaction Name	Location	Sector
1.	**Cook & Clean DIB**	**Kenya**	Health, Environment & Climate Change, Gender
2.	**Eye Health Development Impact Bond**	**Kenya**	Health, Gender Equality
3.	**Impact Bond for Young Women in South Africa—SAMRC**	**South Africa**	Health, Education, Gender Equality
4.	**In Their Hands DIB – 1st tranche**	**Kenya**	Health, Gender Equality
5.	**Living Goods Community Health Outcomes Fund**	**Uganda**	Health, Gender Equality
6.	**Malaria Elimination Accelerator**	**Global**	Health
7.	**Menstrual Hygiene Development Impact Bond**	**Niger and Ethiopia**	Health, Gender Equality
8.	**Western Kenya Child Nutrition DIB**	**Western Kenya**	Health, Gender Equality
9.	**Barranquilla Employment Impact Bond**	**Colombia**	Work & Economic Growth
10.	**Better Quality Jobs for the Youth**	**Mexico**	Work & Economic Growth
11.	**Colombia's Outcomes Fund and Employment Challenge**	**Colombia**	Work & Economic Growth
12.	**India Skill DIB**	**India**	Work & Economic Growth, Gender Equality
13.	**SIINC for Scaling Impact Enterprises of Bangladesh**	**Bangladesh**	Work & Economic Growth, Education, Health, Agriculture, Environmental and Climate Change, WASH, Energy
14.	**SIINC for Vocational Skills Development in LAC**	**Latin America & the Caribbean**	Work & Economic Growth, Education

15.	**Skilling for the Future**	**Bangladesh**	Work & Economic Growth
16.	**The Poverty Alleviation Outcomes Fund**	**Rwanda, Kenya**	Livelihoods, inclusive of Work & Economic Growth, Agriculture, Poverty Graduation, and Education
17.	**Ghana "Sustainable Learning" Outcomes Fund**	**Ghana (Northern, Volta, Eastern Regions)**	Education
18.	**Liberia Education Outcomes Fund**	**Liberia**	Education
19.	**Pakistan Impact Bond for Out-of-School Children**	**Pakistan**	Education
20.	**Sierra Leone Education Outcomes Programme**	**Sierra Leone**	Education
21.	**Uzbekistan IB for Early Childhood Education**	**Uzbekistan**	Education
22.	**ICRC Goma West Water Supply Project**	**Goma (Democratic Republic of Congo)**	Water, Sanitation & Hygiene
23.	**Scaling of One WASH and Cholera Reduction Impact Bond**	**Africa, the Middle East, and Asia**	Water, Sanitation & Hygiene and Public Health
24.	**SIINC for WASH innovations in Sub-Saharan Africa**	**Sub-Saharan Africa**	Water, Sanitation & Hygiene
25.	**Turkana Water Outcomes Financing Facility**	**Kenya**	Water, Sanitation & Hygiene, Environment and Climate Change
26.	**Colombian Family Welfare Impact Bond**	**Colombia**	Child and Family Welfare, Adoption
27.	**Gender-Inclusive Fintech Fund**	**Global**	Gender Equality, Work & Economic Growth, Financial Inclusion
28.	**Preventing Family Separation in Indonesia**	**Indonesia**	Social Protection, Education

29.	**Project 1800 / Blue Equity / SYN**	**Global**	Any Social Issue
30.	**Refugee Livelihoods Impact Bond**	**Jordan and Lebanon**	Humanitarian, Employment, Gender Equality
31.	**SIINC for Off-Grid Clean Energy**	**Kenya**	Energy, Work & Economic Growth, Health, Environmental and Climate Change
32.	**SIINC Outcomes Fund for Off-Grid Clean Energy**	**Global**	Energy, Work & Economic Growth, Health, Environmental and Climate Change

Innovative Finance for Grassroots Organisations:

Potential and Challenges

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Abstract

Grassroots organisations in India, particularly those founded by individuals from marginalised communities, face persistent challenges in securing adequate and sustainable funding. Traditional funding avenues often favour larger non-government organisations (NGOs) with established networks and compliance mechanisms, leaving grassroots entities underfunded and under-resourced. This paper explores the potential of innovative finance mechanisms—such as social impact bonds, retail fundraising, venture philanthropy, and small grants—as alternative funding solutions for these organisations. Through a structured review of literature, industry reports, and interviews with funders and grassroots leaders, the study maps the feasibility of various innovative finance tools for grassroots NGOs. It further delves into specific innovative finance tools that hold promise for grassroots organisations, analysing their perceptions of grassroots work, their principles for funding grassroots NGOs as well as the nature of fund and support provided. The research finds that while innovative finance holds immense promise, the existing models are few and far between. There is a need for a more supportive ecosystem as well as funder education to help channelise funds for grassroots NGOs. The study concludes with recommendations for funders to develop more inclusive and supportive financial ecosystems, emphasising capacity-building and long-term, untied funding models to help grassroots organisations scale and sustain their impact.

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This report is the result of a labour of love - a journey fuelled by passion and enriched by the diverse experiences of people in the development sector. I have drawn endless inspiration from those who work tirelessly on causes that truly matter and who are committed to changing the world for the better. Learning from the lived experiences and dedicated efforts of grassroots workers, who serve our communities with unwavering commitment, has been both inspiring and enlightening.

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1. Introduction

Ms Pathan, a victim of the 2002 Gujarat riots, resides in Juhapura, one of Asia's largest Muslim ghettos and for the last 15 years, has been helping women and adolescent girls become aware of their constitutional rights[5], educated and independent. She founded Parwaaj, an NGO that has supported over 7000 Muslim women and children access social protection, legal aid, and education. As a founder of a grassroots NGO[6], Ms Pathan's role goes well beyond that of one—she is a leader in her community who women and young girls look up to, she supports the families in Juhapura in times of emergency, she has consistently worked towards ensuring that women's rights are well-represented across multiple platforms, she is also a fundraiser, program evaluator, implementer and teacher.

Despite the impact Ms Pathan has made in her community, she has consistently struggled to raise funds and has often had to resort to loans from families, project-based grants from bigger non-government organisation/corporate social responsibility (CSR) funds or short-term fellowships. With an operating budget of INR 10,00,000 a year and a team of 3 people, she is one of many grassroots organisations in India that works towards the economic and social upliftment of disadvantaged citizens, and yet continues to be chronically underfunded.

The average budget of Indian NGOs stands at INR 60,00,000 (CSIP, 2019) and yet the majority of the funding goes to organisations that have budgets over INR 1 crore. A recent Bridgespan report which includes a survey of 388 NGOs revealed "a clear pattern of chronic underfunding leading to severe financial stress." for over 70% of organisations that are founded by people from marginalised communities (Venkatachalam et al., 2021).

Thus, grassroots NGOs, which are embedded in communities and formed on the principles of civic action, are struggling to raise funds to continue their work. So, the question we wish to explore is, given the lack of availability of mainstream funding, are there innovative financing tools that can be leveraged to bridge the existing funding gap for grassroots entities? If yes, what are these tools and how can they best support grassroots NGOs?

2. Literature Review

Before we start exploring innovative finance for grassroots NGOs, we will look at how literature has defined innovative finance as well as grassroots NGOs. While there does not seem to be one universally agreed definition to the term, Innovative Finance has been defined by the International Labour Organisation as “a set of financial solutions and mechanisms that create scalable and effective ways of channelling both private money from the global financial markets and public resources towards solving pressing global problems.”

Based on the review of academic papers and grey literature on innovative finance, we identified two critical characteristics that underlie the concept. These characteristics were identified commonly across the papers. The first is the idea that innovative finance complements or adds to existing capital flows and second is that it improves efficiency or effectiveness of existing capital. For example, a study by Dalberg mentions innovative finance to be “a source of capital that complements existing flows particularly those from governments and philanthropies” and the second as a “deployment or use of capital” (Innovative Financing for Development, 2014). Similarly, a 2018 report by InterAction describes Innovative Finance as “Any instrument beyond a traditional grant that mobilises new capital and/or improves the efficiency or effectiveness of existing capital to tackle social and environmental problems.” (InterAction, 2018).

Apart from these two broad definitions, literature has also pointed to certain other characteristics of innovative finance. It is outcome driven—either in the form of generating profits or social impact or both (Chauhan & Sinha, 2023). For example, Rang De is an online platform, where individual investors can invest in small for-profit social enterprises. The platform conducts its own credibility checks, based on which individuals can invest and earn returns as well (if the business grows). ISDM’s recent paper on innovative finance highlights this, along with the above-mentioned characteristics (Chauhan & Sinha, 2023). A second characteristic that is often highlighted is that it promotes risk-sharing, which is often the innovation in the funding tool. For example, in a first-loss default guarantee, an intermediate entity guarantees a certain amount of money to the lender in case the borrower defaults, thus sharing the risk with the lender.

Given that innovative finance is still in its nascent stages, the cost and complexity of setting up and implementing innovative tools have been high (IFAD, 2018). Thus, it has mostly been implemented for bigger NGOs or for-profit social enterprises. However, we aim to use the definition and principles of innovative finance to explore which tools have the potential to support grassroots entities.

2.1 Defining Grassroots Organisations

A review of literature suggests that grassroots organisations or local NGOs, per se, have not been defined very clearly or in a uniform manner. While grassroots innovation has received a lot of attention, grassroots organisations have found mention as local implementers of programs, community-based organisations, local movements, "mandals" (Bhatt, 1989) or local groups like Mahila Samakhyas (Subramaniam, 2012), to mention a few. D L Sheth in 1984 described the characteristics of grassroots organisations, using the terms grassroots groups and grassroots movements interchangeably (Sheth, 1984). He differentiates them from other "rural development work" citing their role in working against the exploitation of marginalised groups (as opposed to just economic exploitation), working for specific communities and not geographical areas, and supporting the struggle to access economic and political rights. These continue to be the principles for both formally structured grassroots NGOs and informal grassroots entities and movements. However, literature does categorise them differently and delves into the specifics of formally structured grassroots NGOs, which is the focus of our report.

One of the reasons for the lack of mention of grassroots NGOs could be because as formal entities, they have entered the development sector more recently. Many early voluntary organisations in India chose to follow either the Gandhian or religious ideologies. The famine in Bihar during 1966 and the refugee problem in Bangladesh during 1971 led to an increase of NGOs, resulting in a new professional arena of opportunities for Human Resource Development (Rai & Tandon, 2000). During the 1978–80 period, many young people, influenced by the ideals of the JP Movement (named after Jayaprakash Narayan), sought ways to engage in social change without joining political parties. They started to set up NGOs, and in the process would work with volunteers in communities, who would be provided with basic travel and food allowance. The focus of volunteers was initially to support social action, rather than formalise their efforts into an NGO. As international funding started to trickle in for large-scale development programs (which were often government programs), community-based groups and individuals were needed to implement them at the local level (Kilby, 2010). Thus, many of them formalised into NGOs to forge partnerships with the government and international donors. As time progressed, the system became more formalised and compliance-driven. The introduction of the Foreign Contribution Regulation Act (FCRA) in 1976 also contributed to the tightening of government monitoring. This was one of the critical factors that may have led to a drop in international funding, and we saw a phase where many well-resourced local NGOs scaled down, while other smaller ones struggled to fundraise. Increase in compliance requirements may have also driven community-based groups to formalise into NGOs. These types of organisations are the focus of our research report—civic action groups or volunteers that integrated into non-government organisations, but retained the principles of grassroots civic action. Murthy and Rao (1997) have categorised such grassroots organisations into 3 groups— "development NGOs" focused on implementation work, "social action groups" focused on issue-based mobilisation, and "empowerment NGOs" that are a combination of the first two.

Drawing from the definitions of DL Sheth and Murthy and Rao (1997), we define grassroots NGOs as formally registered entities that are embedded within the communities they serve (which are on the margins of society), focusing on their overall upliftment (economic, political, and social). They often function with small budgets (less than INR 50,00,000), and operate in remote locations.

The 2022 GuideStar India report is one of the few recent reports that shed some critical light on the status of such organisations, using a sample of 861 NGOs across India. They found that 62% of their sample comprises organisations with operating budgets of less than INR 1 crore (GuideStar India, 2023). 26% had an annual expenditure of less than INR 10 lakhs in 2021–22; 24% had an annual expenditure between INR 10–50 lakh and 12% between INR 50 lakh and INR 1 crore. Other reports on philanthropy and giving including the India Philanthropy Report (2021), Bridgespan's report, Building Strong, Resilient NGOs in India: Time for New Funding Practices (2021) and Centre For Social Impact and Philanthropy's 2021 report have spoken about grassroots NGOs led by founders from marginalised groups, but they do not speak to the very specific group of community-based ones and speak about multiple categories of women, people with disabilities, LGBTQI+, Dalits and so on generically.

While some intermediary organisations – like the National Foundation for India – have been supporting the development of such NGOs since the 1990s, they have been few and far between, and literature on them has been limited. The onset of COVID 19 and the change in FCRA norms, which prevented the sub-granting of foreign donations, brought a greater focus to these grassroots entities since they not only were the most critical link in providing relief and service to remote communities, they were also the first set of organisations to lose their funding. Thus, from 2020 many intermediary organisations, foundations and larger NGOs like Dasra, Jan Sahas, GROW Fund among others started supporting them but research from their experiences is still forthcoming. We have tried to capture some of these experiences in our analysis section.

2.2 State of Funding for Grassroots Organisationssations

In recent years, many grassroots NGOs, which traditionally relied on sub-granting from larger NGOs, have had to build their capacity to comply with the regulations. The introduction of stricter FCRA norms, coupled with the impact of COVID-19, made it increasingly difficult for these organisations to secure funding. Various industry reports highlight the growing challenges in this sector. The GuideStar Report stated that 47% of organisations with budgets under INR 1 crore reported self-funding and retail individual donations as their biggest source of funds (GuideStar, 2023). The same report found that during COVID, 65% of small organisations also reported some losses in funding. 38% lost up to INR 10 lakhs, while 24% lost between INR 10 lakhs and INR 1 crore. According to a CSIP report, those most in need of fundraising support often receive the least (CSIP, 2019), a situation compounded for marginalised communities, as also noted by a Bridgespan study (Building Strong, Resilient NGOs in India: Time for New Funding Practices (2021)). Power imbalances in the philanthropic sector further exacerbate these disparities. For example, the top 20 NGOs in India receive 60% of the total funding, leaving out smaller organisations as revealed in a recent report by Sattva (Venkatesan, 2023). This makes the situation dire for smaller grassroots NGOs that are already at a disadvantage.

2.3 Challenges Faced by Grassroots Organisations

While recent events and trends have made fundraising more challenging, grassroots organisations have struggled with it in the past as well. Below, we delve into some of these challenges.

- **Articulation of Work and Impact:** The sharp contrast in social backgrounds between funders and them implies that grassroots organisations with founders from marginalised communities struggle to articulate their work in a language that aligns with the funders. The communication barriers often stem both from the usage of English as well as unfamiliar technical language. In addition, styles and modes (e.g., PowerPoint presentations) create technical and cultural challenges when pitching for funds or describing their impact. Former CEO of CIVICUS, Dhananjayan Sriskandarajah wrote in an article for the Guardian about how grassroots organisations do not have the resources to show their "accounts-ability" while larger NGOs have "the capacity to plan, deliver and monitor, regurgitate the latest jargon, prepare a plausible log frame, and be visible in high-level development forums,"(Five Reasons Funding Should Go Directly to Local NGOs,2015).

- **Compliance:** All funders/investors want social enterprises to have basic documentation in place for legal compliance purposes. These could include certifications like 12A, 80G, FCRA, along with others like POSH policies, HR and data policies, governance boards and advisory boards. Dhwani Foundation, based in Bangalore, has put together a 161-point checklist across eight areas, which covers all the aspects that funders often need information on (Dhwani website). Additionally, increasing government vigilance on foreign funding for NGOs creates uncertainty about FCRA renewals and extensions. These put organisations under immense stress while also leading to donor inhibition in dealing with smaller NGOs. As the demands for compliance increase, so do the costs and skills required. While this is a challenge for all organisations, the resource constraints—financial and human—make it even more challenging for smaller entities.
- **Local vs. Global:** Only 20 of India's 176 biggest NGOs have budgets over INR 100 crore (Venkatesan, 2023). Of the supposed 3 million plus social enterprises, a large proportion have very small budgets (Bain Dasra India Philanthropy Report 2021) and work locally with a small population. Despite their size, the impact they create can be of great significance in the local communities they work in, with the density of local ties and depth of contextual knowledge, often being their most critical assets[24]. In contrast, most funders want to work across larger geographies, relying more on abstract knowledge that is generalisable across contexts and concepts of scale that might be very different from what the grassroot founders aspire to. The burden of conveying the depth of impact, which is often harder than generating impact numbers, also lies on smaller entities, which makes it even more difficult for them to communicate with and convince funders. As Amitabh Behar, CEO Oxfam India, pointed out in an interview with the Indian Development Review (IDR), "the earlier generation of nonprofits are struggling because they lack resources and are unable to communicate to a new set of decision makers who don't understand their language of social justice and systems change." (Vora, 2018)
- **Access to Social Networks:** Access to grants—private, government or philanthropic—needs an approach to social networks (Marg, 2016), which most founders working in grassroots organisations may not have, owing to their social backgrounds and their remote areas of work. "Warm introductions" to CSR heads, foundations, or government officials necessitates having a social network that can enable this.
- **Mismatch in Funder and Organisation Expectations:** Given the skewed power dynamic between funders and social enterprises (skewed heavily towards funders), social enterprises may not be able to manage expectations from funders

(Venkatachalam et al., 2021). The need for tracking of attributable impact for philanthropists/foundations are tough asks for social enterprises which they may not be able to fulfil due to resource constraints. For example, the need to see a strong return on investment often necessitates organisations scaling their work, which is a challenge for grassroots organisations.

2.4 Innovative Finance—A Potential Solution

With traditional routes of fundraising becoming narrower for grassroots organisations, the potential for innovative finance to fill this gap needs urgent exploration. It has been argued that the scope and scale of innovative finance has been growing exponentially (Ravi et al., 2019) in India and has taken multiple new forms including but not limited to Social Impact Bonds, Impact Investing, Social Stock Exchanges, Venture Philanthropy and Crowdfunding (Davies, 2021).

However, initial research also reveals gaps. While agri-tech and climate sectors are seeing a rise in innovative financing (IIC 2022 in Retrospect, 2023), recent research suggests that the rise has largely been limited to these sectors. Even within them, growth has been particularly limited to enterprises that focus on scale through technology and those that serve middle- or higher-income categories. Models like crowdsourcing have also seen a surge in recent years (Everyday Giving in India Report: 2019, 2019), but the extent to which it is used by grassroot organisations and its effectiveness remains understudied. Some innovative finance tools are also currently expensive to set up and execute. For example, the Development Impact Bonds (DIB) require rigorous impact measurement, which is expensive (ISDM, 2023). The Educate Girls DIB, the first of its kind, is a case in point where the cost of impact measurement was higher than program costs (Pancholi, 2022). While there have been significant efforts to reduce these costs, tools like DIBs are not yet ready for smaller NGOs to adopt. The impact and use of innovative finance tools like small grants (typically under INR 5 lakhs) and retail giving, which could potentially be used by NGOs, have not been studied extensively, let alone for grassroots organisations.

Given the relatively nascent stage of its development, we believe this is the appropriate time to consider how the concept and supporting ecosystem can be designed to be inclusive of grassroot organisations, led by individuals from communities targeted by resources and instruments constituting innovative finance. Thus, the aim of this research is to understand if and how innovative financing can be channelled to support grassroots organisations, to help them scale and sustain their work.

[1]We don't have credible sources that verify the total number of NGOs. There are 2.7 lakh registered NGOs on the government's DARPAN portal, but there could be many more unregistered NGOs as well.

3. Research Objective

The broad research objective for this report is to understand whether and how innovative finance tools can be leveraged by grassroots entities to bridge the funding gaps they currently experience. Within this, we aim to explore four key questions:

1. What are the success cases of innovative finance for grassroots organisations? What attributes characterise (e.g., size, sector, geography) the organisations where innovative finance has been cited to be successful?
2. What principles (e.g., eligibility criteria, evaluation metrics, application processes) characterise the instruments of innovative finance that have been used in practice? Do they differ based on size, sector, and organisational background?
3. What challenges do promoters of innovative finance instruments perceive in supporting grassroot organisations? How do grassroots organisations perceive these roadblocks, given their contexts?
4. What are ways of enhancing the effectiveness of current funding models used by grassroots organisations with instruments aligned with the principles of innovative finance? What are the ecosystem enablers that could aid grassroots organisations fundraise effectively using innovative financing?

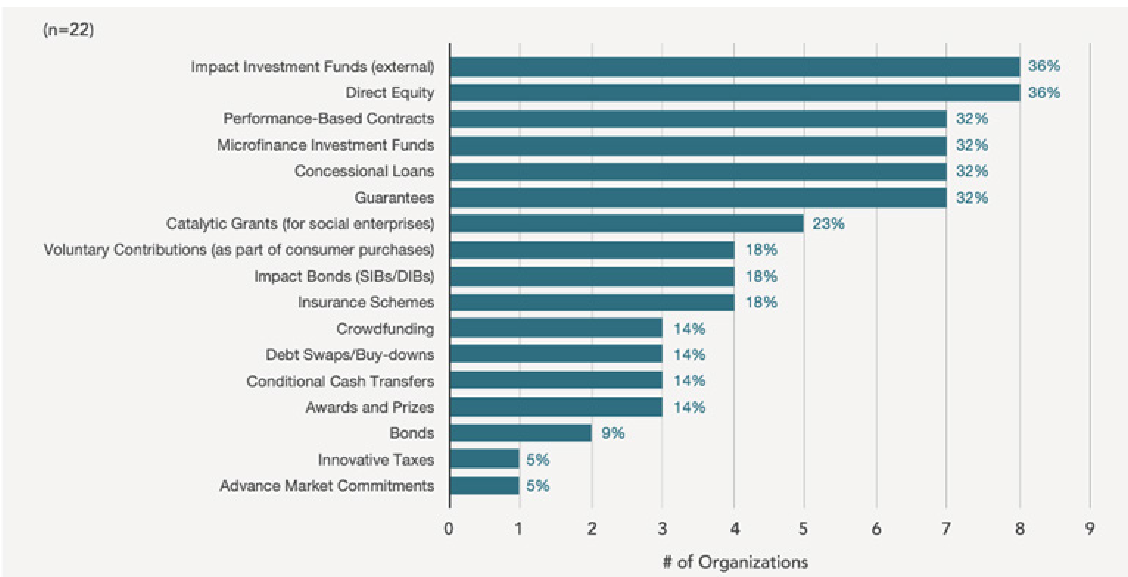
4. Methodology

We used a mixed-methods design combining qualitative interviews, case study analysis, and a mapping exercise to explore our five research questions. First, using the definition of innovative finance, we identified innovative tools we wished to study further in the context of NGOs. Next, we undertook a mapping exercise using data available online, and interviews (where possible) to explore design principles of these innovative finance tools and whether they supported/could support grassroots organisations. This allowed us to further shortlist innovative finance tools that could be successfully leveraged to fund grassroots NGOs. Finally, we interviewed a range of stakeholders to delve deeper into the principles and mindsets of those that leverage different kinds of innovative finance tools. The interviews also helped us understand the challenges grassroots organisations face in using innovative finance, and how we can create a more enabling ecosystem to further aid their use.

4.1 Identifying Innovative Finance Tools

Given the two broad definitions of innovative finance that we shared in the literature review—it mobilises new capital or it improves the efficiency of existing capital, there are numerous tools that fall under its ambit. The table below from the InterAction (2018) report gives an overview of the most commonly used innovative finance tools for development among organisations.

Figure 1: Commonly used Innovative Finance for Development Tools



Source: Innovative Finance for Development, 2018

These results are based on an InterAction member survey implemented in 2017. The aim of the survey was to understand the experiences of InterAction's 178 members with innovative finance approaches.

Since the organisations we are studying are NGOs, some of these tools are not viable for them. For example, impact investing, debt swaps or credit guarantees cannot be used for not-for-profit organisations since they do not generate returns. On the other hand, outcome-based options like Development Impact Bonds (DIB), or crowdfunding, retail giving, awards and prizes can be used for these organisations.

We also added a few tools that we believe followed the definition of innovative finance but were not categorised as such. These were added based on the experience of grassroots organisations the researcher has worked with, as well as insights from other funders. The additional tools satisfied one or both definitions of innovative finance, namely, they increased the flow of capital and/or improved the efficiency of capital. The additional tools included were Micro-philanthropy, Organisation

Development Funding, Community-Based Giving, Trust-Based Funding, Incubators and Fellowships. Thus, we curated a total of ten innovative finance tools. Details of the tools and the characteristics they satisfied are given in Table 1.

Table 1: Characteristics Satisfied by Innovative Finance Tools

Innovative Finance Tools	Definition	D1: Mobilising Additional Resources for Public Good	D2: Increase in Effective Utilisation of Existing Capital
Micro-philanthropy	**Small, targeted, and often long-term donations to collectively support and amplify social impact**	**Yes, allows people to give small, long-term grants to organisations**	Yes, untied nature of fund means it can be used often in unfunded areas like overheads, which can help improve use of existing funds
Community-Based Funding	**Locally raised (regional/ community specific) donations for local causes**	**Yes, creates a channel through which communities can give to local causes**	Yes, oftentimes community funding can support issues/ programs that mainstream funders may otherwise not support
Fellowships	**Stipends that support founders/ team members of NGOs**	**Yes, greater investment in young people solving global problems**	Yes, by ensuring a stipend for the founder/team members, reduces burden and allows them to increase time for other cause related activities
Incubators	**Provides startups with mentorship, resources, and networking support to help them launch and grow successfully**	**Yes, they support new ideas for which funding is increasingly available**	Yes, apart from funding, also provides support which helps them grow and scale their efforts
Trust-Based Philanthropy	**Provides long-term, untied, flexible funding to NGOs**	**No, still limited uptake**	Yes, untied nature of fund means it can be used often in unfunded areas like overheads, which can help improve use of existing funds

Organisation Development Funding	**Provides long-term fund specifically for organisation development**	**No, still limited uptake**	Yes, since funds are specific for organisation development, it will strengthen the organisation to help them grow their efforts
Awards and Prizes	**Lump-sum grant offered to NGOs**	**Yes, increase in number of awards/ prizes for NGOs**	Yes, provides a lump-sum of money that can be used in any manner deemed fit by the organisation
Crowdfunding	**Raising small amounts of money from a large number of people, typically via online platforms, to fund a project or venture**	**Yes, increase in donations in India over the years**	Not necessarily; most crowdfunding is specific to programs, but the funds raised could also be used to strengthen the organisation and fast track its progress
Impact Bonds	**Pay-for-success mechanism where private or philanthropic investors fund social programs, receiving repayment (and potential returns) only if specified outcomes are met**	**Yes, increases flow of private money by assuring returns if outcomes are met**	Not necessarily; it focuses on outcome-focused management, encouraging data-driven decision-making, and reducing financial risk but also comes at a high cost
Retail Fundraising	**Money raised from a large number of people through door-to-door campaigns, events, websites and more**	**Yes, it allows organisations to fundraise small amounts from a larger group**	Not necessarily; it could support programs or could also be used to improve efficiency for the organisation

4.2 Mapping Innovative Finance Tools: Exploring its potential for Grassroots NGOs

Given our focus on grassroots organisations, we wanted to explore the extent to which these innovative finance tools support grassroots entities, given the resource constraints they operate in. We therefore created a matrix which focused on delving into design principles. It covers aspects of who the fund supports, eligibility requirements, fund type and funding process. The details are as follows.

- **Profile of the Founder:** Does the fund actively support founders from marginalised communities, or those that have been embedded in the community? This therefore also entails working with people who may not be based in cities, not fluent in English, or may not have advanced educational degrees.
- **Budget:** Does the fund support small grassroots NGOs? What is the average budget of organisations that they support? Do they have any eligibility criteria for budgets?
- **FCRA Requirement:** Is FCRA a requirement for organisations to be funded? If yes, that would imply that a large number of grassroots organisations might not be eligible for funding.
- **Funding Process—Grassroots Centric or Not:** Considering the resource limitations of grassroots organisations, was the tool designed to mitigate their exclusion? For example, was the application form long or short, was it available in multiple languages, what were the compliance requirements?
- **Fund Type:** What was the duration of the grant? Was it tied/untied to line items or specific activities? While all organisations would benefit from flexible and long-term funding, it is even more crucial for grassroots organisations. Thus, funds that are non-programmatic, untied, for organisation development, that may also cover overhead costs are preferable.
- **Profile of Organisations Funded:** What kinds of organisations get funded—which sector, which geography, the size, and examples of other organisations that get funded. While this is not a design principle, it further sheds light on the portfolio focus of the innovative finance tool.

For each innovative finance tool, we tried to find two to three organisations that leveraged them, and then mapped their design principles, based on the above matrix. There was a total of 20 organisations across the ten tools. The mapping exercise was conducted using online sources, the experience of five grassroots organisations as well as through interviews with stakeholders where possible (See Appendix 1).

Based on the above criteria, we categorised the innovative finance tools into three groups: Not feasible (red), technically feasible (orange), and feasible (green). This categorisation was based on the extent to which the tools considered the contexts and challenges of the grassroots organisations. Thus, a tool that provided untied, long-term flexible funding, actively sought out and had eligibility requirements that the grassroots NGOs could meet, and had grassroots focused funding criteria would be green. Any fund that satisfied 4 out of 6 of the criteria was orange, and any that satisfied less than four were in red.

We analysed the map to understand the unique characteristics of various innovative finance tools. We were also able to identify trends across different types of innovative finance tools, as well as explore how the same tool was used by different organisations. It helped us understand design principles that cut across innovative finance tools, the principles that were prioritised and the profiles of organisations these tools seemed to support.

The mapping exercise is not exhaustive and we hope to continue to build on this list as more examples come to the fore.

4.3 Primary Data Collection and Sampling

Using this mapping, we further delved into why some patterns emerge, what makes these funders contribute to grassroots NGOs, what are some of the risks and challenges of funding grassroots entities, and what innovations would be possible, moving forward. We conducted a total of 21 interviews using snowball sampling between June 2024 and October 2024. While these interviews gave us critical insights into innovative finance for grassroots NGOs, we believe there is greater scope to include a more diverse pool of interviewees (NGO founders from other regions, mainstream funders, CSR heads among others).

Nine in-depth semi-structured interviews were conducted with stakeholders who can be categorised into three types:

1. Five senior level leaders in organisations that fund grassroots entities,
2. Two individuals that have a deep understanding of the funding ecosystem and its evolution,
3. Two experts that are part of intermediary organisations that support grassroots organisations to raise funds.

We also had informal conversations with six other individuals who were associated with fundraising for organisations, or had a deeper understanding of the funding ecosystem. These included professionals in the development sector who worked in fundraising, program strategy and implementation, India head of an international foundation, head of a CSR initiative, and a professional who was a part of an initiative to support grassroots NGOs.

Finally, ongoing conversations with five grassroots organisations also contributed to our understanding of some innovative finance tools, their experiences with them as well as the challenges they faced in fundraising. These organisations are all founded by people from within the communities or by those who have been embedded in them. All but one have a budget under INR 50 lakhs. Each founder started working in their communities to give back and later formalised their efforts into an NGO. The age of these organisations ranges between 8 years to 25 years. The sectors they work in include education for tribal children, women empowerment, conflict transformation, preservation of arts, and teaching 21st century skills to young adults. These organisations are based in the communities they serve namely, Juhapura, Ahmedabad (GJ), Dakhikar village, Alwar (RJ), Sanjay Colony Slum, Okhla (DL), Kathputli Colony, Shadipur (DL). The average team size (not including the founder) ranges from 2–15. None of these organisations have a dedicated fundraising, M&E, HR, or accounts team. They all have basic compliances of 12A, 80G and audited financial statements, one also has an FCRA certificate. These organisations represent a very small pool of grassroots NGOs in northern India, with a largely urban bias, focusing on a few sectors.

4.4 Data Analysis Method

The aim of the interviews and conversations was to gain insights into the principles of innovative finance tools that were used for grassroots funding, to infer the challenges and opportunities that the current promoters of innovative finance see in funding grassroots entities, as well as alternative tools and enabling factors that could support innovative funding for these organisations. The analysis also helped us understand how the enunciated principles on paper are interpreted and translated in practice by those tasked with doing so.

The interviews were transcribed using Microsoft Office 365 and then coded manually at two levels. The first identified the key themes and sub themes that emerged from the interviews, mapping both recurrent ideas as well as outliers. At the second level, we aimed to map the relationship between the themes, for example, between instrument type and risk-taking ability, to help answer our research questions with greater nuance.

5. Analysis

5.1 List of Innovative Finance Tools That Support Grassroots Organisations

Based on the mapping exercise, we identified eight feasible tools for funding grassroots organisations. The basic principles of each of the eight tools is mentioned below.

- **Retail Fundraising:** When an entity or individual raises a small amount of money from a large number of people, it is called retail fundraising. For example, Give India had a retail fundraising platform where it would allow people to donate to verified organisations and their causes, while also providing feedback on how the money was utilised. They also started many other retail giving initiatives like payroll giving, High Net-worth Individual (HNI) giving and event-based giving, among others. Retail giving may involve an intermediary organisation that facilitates the engagement between donors and NGOs. They build trust with the donors by verifying organisations and providing feedback on how their money was used, while bringing visibility to the NGOs through their platform, helping them raise funds. Retail fundraising can also include direct activities by the organisations such as door-to-door fundraising, and fundraising through websites and online campaigns.

- **Organisation Development Funds:** These funds are provided to specifically support some aspects of an organisation's structure or functioning, like HR, accounting, fundraising, monitoring and evaluation (M&E) and leadership development. The aim is to help organisations create supporting structures that would assist them in better executing their initiatives. Examples of these include the GROW fund and the Grassroots Resilience Institute. Given the gap in the funding "overheads", in which mainstream funders usually do not want to give more than 10–20% of the funding, this tool is unique in that it solely funds the "overhead" components. It is specifically useful for grassroots organisations since they often struggle with building these foundational pillars due to resource constraints.

- **Micro-philanthropy:** As the term suggests, micro-philanthropy is when an individual donor provides small sums of philanthropic funding to organisations. The fund provided is usually long-term, with the micro-philanthropist deeply invested in the growth of the organisation as well as the cause. The funder we spoke to supported three organisations, and provided anywhere between INR 50,000 a year to INR 2 lakhs per organisation, which can be significant for them.

- **Awards/grants:** Instituted by governments, foundations, CSRs or other business platforms, awards or grants are usually one time in nature. They are not tied to any line item and are usually given to promote new ideas or initiatives in remote regions or underfunded sectors. Some examples include "eivolve" grants that promote volunteerism, Azim Premji's North East grant to promote NGOs in the northeastern states or the Confederation of Indian Industry's (CII) grant for women leadership in the development sector.

- **Fellowships:** Through fellowships, founders or team members of grassroots organisations are given a monthly stipend to help them continue working on their initiatives. For example, Inlaks instituted a 2-year fellowship to help individuals work on new ideas. Similarly, Azim Premji Philanthropy also offers such fellowships. Similar to grants, but more long-term and person-centric (and not project-specific), they provide economic stability to help promote initiatives where funds are often not easily available. Some international organisations like Action Aid also used to promote grassroots leaders through fellowship programs, but once the FCRA norms changed, they could not continue to support those who did not have an FCRA licence[50].

- **Trust-Based Philanthropy:** Trust-based philanthropy reimagines the relationships between donors, nonprofits and communities to rebalance power and decision-making. This model prioritises relationship-building, reducing administrative burdens for NGOs, and fostering a collaborative partnership. While not new, recent discourse around trust-based philanthropy has grown, aiming to shift the power balance from the funder to the grantee. Often, trust-based philanthropy provides grantees with long-term flexible funding, with aims to keep the needs of the grantee at the centre, including the design of the application process, compliance requirements or proactive donor engagement. Examples include the Paul Hamlyn Foundation, the Rebuild India Fund and the RNP Foundation.

- **Incubators:** Incubators leverage their networks, know-how, and resources to provide nonprofit startups with the tools they need to grow and accomplish their goals. Often provided to early-stage NGOs, some incubators also provide financial support in addition to social connections and knowledge resources. Examples include Atma, Nudge, and UnLimited among others. The funding is usually untied, and is provided over the incubation period, which helps NGOs use funds per their needs.

- **Community-Based Giving:** When members of a community share resources (both in kind and as donations) towards a particular cause, it is termed as community-based giving. An example would be the method of fundraising followed by the Bawarchi Jamat, a local NGO in Ahmedabad, that collects donations from the Bawarchi community to sponsor higher education or events that promote education in the community.

5.2 Characteristics of Innovative Finance Tools that Support Grassroots Organisations

When we took a closer look at the map (see Appendix 1), we first observed that the most feasible examples (coloured in green) were the ones that focused solely on grassroots giving. They were either a separate vertical within a larger organisation, or committed to giving just to grassroot entities. Thus, grassroots giving emerged as a separate category of funding, which seemed to have a different approach and intentionality. We categorised DIBs and SIBs in red since they are expensive to set up and execute, both based on the literature review as well as our own analysis of case studies found online. Additionally, we find that DIBs and SIBs have very high target and performance driven metrics, which grassroots organisations often do not have the capacity to meet. An example is the British Asian Trust's DIB projects. They funded six organisations, all with budgets over INR 10 crore. Crowdfunding was put under the orange category since it is technically feasible, but it can be quite expensive, given how crowded the space has become. For example, Milaap, a crowdfunding platform, was averaging around 20,000 campaigns a month as of 2022 (Milaap-Case-Study. Pdf, 2022).

What emerged was that the tool alone was irrelevant, what mattered also was the way in which the tools were used. An example was the incubator program—while PlusTrust runs a micro-incubator for women from marginalised communities, the Nudge's Livelihood incubator does not naturally select grassroots organisations with a majority of their current portfolio comprising urban, educated founders. Similarly, if we look at Organisation Development (OD) Funds, on the one hand, the GROW fund which provided INR 40 lakhs of OD funds had an eligibility criterion for INR 1.5 crore, while GRI by Jan Sahas funded organisations were well under INR 50,00,000.

Some of the tools that focused on grassroots organisations shared common characteristics around their funding principles and profiles. For example, tools like micro-philanthropy, trust-based grants or small grants from larger philanthropies, adopt a trust-based approach to identifying and funding grassroots organisations. This approach includes building an equal partnership with these organisations, where the funder makes the effort to understand the work of grassroots organisations and makes the application process NGO friendly. The idea of proximate leadership—that the founder should be from the communities or closely linked to them —is also a common theme. Another interesting insight was that most organisations that fund

[2]Current cohort of the Nudge Incubator Program—here

grassroots entities did not have a budget range to be eligible, while programs that were not targeted towards grassroots organisations, made it a point to mention budgets as the eligibility criteria. We also noted that some of the grassroots-focused grants like those provided by Thousand Currents or the Mariwala Foundation were also available to community-based organisations or movements, and most organisations had a specific geographic and/or a sectoral focus. We noticed that for India-based grassroots-focused funders, 11 out of 14 India-based grants were under INR 20,00,000 per annum, which could reflect both the ability of grassroots organisations to absorb funds or the lack of funding. We also note that 11 out of 20 mapped grants were long-term (more than 2 years).

The mapping exercise therefore helped us understand that innovative finance for grassroots giving was a separate category of funding, with its own principles and approaches. We also notice that there are shared principles and approaches characterising financing targeted at grassroots NGOs. Through the qualitative interviews we tried to delve deeper into understanding these design principles from the perspectives of the stakeholders involved. We broke the analysis down into three parts—the first delves into the underlying principles of the chosen tools, the second focuses on the funding process, and the third looks at the "beyond funding" support provided to grassroots NGOs.

5.3 Principles Characterising the Instruments of Innovative Finance

Insights from our interviews helped shed light on the various principles and approaches as articulated by promoters of innovative finance tools. We break this section into five parts—first is the understanding of grassroots organisations that users of innovative finance tools have, second is the eligibility criteria they use while funding grassroots organisations, third is the funding process they follow, fourth is the principles they follow while choosing whether to fund an organisation or not, and last is the support provided post funding (if any).

5.3.1 Definition of Grassroots Organisation Used by Promoters of Innovative Finance

We first started by asking all our interviewees what their definition of a grassroots organisation was. We tried to determine how these funders understood the work and the nature of grassroots organisations, which in turn influenced how they funded them.

The first critical aspect that the interviewees shared was that grassroots work was rooted in communities, with the founders often being from the communities themselves. Terms used by them included “grounded in the community”, “from, by and of the community”, “founder-led”, “proximate to the community” and “local”. One of our interviewees mentioned that grassroots implied “remote” or usually difficult to get to. Another pointed out that grassroots organisations work in areas that are often ignored or less talked about; for example, initiatives to support the Moosahar community or PVTG communities, also highlighting community specific work carried out by these entities. This local and context specific work was not looked down upon as small, insignificant, or ad hoc. Rather, there was acknowledgement and respect for the fact that grassroots work was participatory, organic, community-led, and therefore, an important effort to serve the needs of the people.

Another aspect that the interviewees shared was that they do not necessarily work in a specific sector, rather each NGO may work across a range of interconnected areas. Thus, there also seemed to be a strong understanding of the nature of challenges that vulnerable communities face. While some mentioned that the complex challenges may lead to the lack of a strong strategy or theory of change, which might make the work of NGOs less effective, it did not take away from the understanding that challenges that vulnerable communities face did not exist in silos.

The third perspective that emerged was their understanding that grassroots organisations often do not have resources to run effectively. This is not because they are not capable, but because of the environment in which they operate, they may not have CSR funds where they work, the founders or staff may not have the exposure on how to fundraise or do Monitoring and Evaluation (M&E) effectively. They mentioned that grassroots organisations lack funds to hire professional fundraisers or M&E experts or in many cases may be founder-led, where the founder essays multiple roles. They mentioned that NGOs often require high-touch support in many areas like compliance, fundraising, and communications because of these constraints.

Lastly, some interviewees also shared that grassroots work may be political or “activisty.” One interviewee described “activisty” organisations as voicing citizen concerns, calling it “citizen action.” Another mentioned that some grassroots organisations could have political affiliations. While some organisations could not support such work because of the current political environment or because they worked with the government, others mentioned that they could fund such organisations, because they were laying low, or because they could afford to take the risk. They believed that this kind of work was also important. One interviewee termed it as civic action, and mentioned that they did not have the ability to support those efforts, as it would hinder some of their other workstreams.

In sum, the definition of grassroots NGOs that emerges is that they are "NGOs that are rooted in communities and work with an intersectional lens for their economic, social and political empowerment, but are often resource constrained owing to their socio-economic contexts."

We notice that these characteristics were similar to DL Sheth's description of grassroots movements, organisations or groups which went beyond "rural development work" and supported communities (not necessarily geographies) to ensure their economic, social and political empowerment.

One of the reasons that the funders we spoke to appreciated grassroots work, recognised its nuances and were willing to take a bet on it was because they all had experience with grassroots organisations, either having worked with them, being a part of one, or having started off as one. While some funders had travelled to remote parts of the country to learn more about grassroots organisations, others with 30 years of development sector experience had worked with them. Another mentioned having worked closely with them during COVID, which gave them a glimpse into their importance and the challenges they faced.

Case Study: Parwaaz Sanstha and Their Experience with the Action Aid Fellowship

A large number of women in Juhapura are victims of domestic violence, have experienced severe trauma during the Gujarat Riots and more, and have also struggled to access their legal rights. Khairunnisha Pathan, a resident of Juhapura started Parwaaz through which she ensured that the victims of riots and domestic abuse have access to legal aid. Eventually, Parwaaz became a safe space for women to express, learn about, as well as exercise their constitutional rights. The organisation eventually adopted a rights-based approach and intervened to improve access of the people in the area to public schemes related to livelihood, education, the public distribution system, and health. Today, there are more than 2000 women who are associated with the organisation and they have so far served more than 10,000 women. While Parwaaz has played a significant role in the lives of these women, Khairun ben has struggled to raise funds, particularly during COVID and after the change of the FCRA norms. With an annual budget of INR 20,00,000, operating in an urban Muslim ghetto, and working towards helping women access their rights and be independent, she has not been considered very "fundable". While she speaks English, she is uncomfortable doing so in public spaces, where she feels she will be judged. While she doesn't speak the language often used in the development sector, she understands the effort it takes to work in a patriarchal set-up, with extremist undertones and religious conflict often brewing above the surface. She has helped women find the courage to step out of abusive marriages, get educated and find jobs, and has worked to empower them to take a stand for themselves. Despite this, the maximum amount of income she has been able to draw, after 20+ years of experience, is INR 30,000 per month. Most of her previous funding has been in the range of INR 5000–INR 10,000 per month.

While she has had many bad experiences with funders, she recalls a positive one with one funder, Action Aid, who gave her a long-term fellowship. Initially, Parwaaz was a community-based organisation, part of a larger Action Aid project. When the project did not do well, Action Aid was planning to close it, but keeping the needs of the community in mind, decided to work directly with Parwaaz, and decided to offer a fellowship of INR 8000 per month. While the money was insufficient, Parwaaz's experience was positive because they learnt a lot, primarily how to run an NGO, from the basics such as making plans, budgets, and working out theories of change to understanding the idea of "rights-based work." Khairun ben mentions that she learnt how to take pride in supporting even one family, how to work with politicians, and how to talk about their work. They were also given many opportunities to represent Parwaaz at forums across the country. They could make presentations in a manner they chose and felt supported throughout the almost 10-year journey. Due to the change in FCRA norms, they had to discontinue the fellowship, but they proved to be a key supporter in Parwaaz's growth and success.

5.3.2 Eligibility criteria

Through the course of our interviews, we asked the interviewees about the eligibility criteria they used to shortlist organisations. Below are the criteria they mentioned:

- **Proximate leadership/community involvement:** As evidenced in the map, all funders of grassroots organisations choose those from within the community, or those embedded in the community. Across micro-philanthropy, trust-based philanthropy and organisation development funding, proximate leadership was a part of their eligibility criteria. In the case of retail fundraising, an intermediate organisation that was bridging the gap between individual donors and organisations, could actively identify and onboard only grassroots organisations, if they wished.
- **Alignment with Vision and Sector:** Each funder perceives their role differently in supporting grassroots organisations, and is able to work with them accordingly. For example, one of the micro-philanthropists wanted to support grassroots organisations so that his funds could help them stay relevant in the community. Another interviewee mentioned that their aim was to provide organisational development (OD) support to organisations with a focus on gender and migration. One of the trust-based philanthropies mentioned that their role was that of a systems facilitator and they were sector agnostic, however the focus had to be on vulnerable communities.
- **Basic Legal Compliances:** Most funders required basic legal compliances like 12A, 80G and audited financial statements. Three interviewees also stated that they could support organisations to get their compliances in place and get certified. For one funder, FCRA was an additional requirement given that a larger part of their donations came from international sources, and sub-granting of foreign funds has not been legal since 2020. This is a shift from what we see for mainstream funding organisations, where their own compliances could include a plethora of components such as governance boards, advisory boards, HR and POSH policies, and M&E systems, among others. While some of these are legally mandated (like POSH policy and governance boards), other compliance needs like HR policy and M&E systems are funder requirements, which grassroots NGOs are often unable to meet.

  In the case of retail funding though, compliance requirements may be stricter since individuals giving to these entities require information that will help them trust that their money is being put to good use. An interviewee who had previously worked in retail giving mentioned that providing information to donors on how the money had been utilised and sharing success stories was a critical part of the fundraising process.
- **References:** Interviewees mentioned references as a key source of identifying

NGOs to work with. The references also provided credibility, giving funders the confidence that the organisation was worth funding. In cohort-based models, like two of our cases of trust-based philanthropy and OD funding, the cohort members themselves would share references of grassroots NGOs. In other instances, they may get references from funders providing similar kinds of funding or support services to such organisations.

Below is a brief summary of the identification mechanisms and eligibility criteria for five cases from four innovative finance tools.

Table 2: Identification and Eligibility Criteria used across Innovative Finance Tools[3]

	Identification	Eligibility Criteria
Micro-philanthropy	**Through referrals**	**Preferably possess valid 12A, 80G and Audited Financial Statements**
OD fund	**Through referrals**	**1. Possess valid 12A, 80G and Audited Financial Statements 2. Work in one of the two areas that the organisation funds 3. Founders should be from within the community or be embedded in them**
Trust-Based Philanthropy - 1	**Through referrals**	**1. Possess valid 12A, 80G and Audited Financial Statements—if not in place, funder can help get required certifications 2. Founders should be from within the community or be embedded in them—Proximate Leadership 3. Preferable if they have an FCRA license**
Trust-Based Philanthropy - 2	**Through referrals and sometimes through cold mails**	**1. Possess valid 12A, 80G and Audited Financial Statements 2. Prefer organisation that do not need a lot of handholding 3. Aligned with one of the five focus areas of the organisation**
Small Grants	**Through cold emails**	**Those who share a proposal that aligns with funder organisation's mission are reached out to**

[3]This table presents five cases that cover four innovative finance tools. It does not seek to generalise these findings across these tools.

We find that the eligibility criteria used across mainstream funding (not geared towards grassroots) have some overlap with this set, but there is a significant departure in certain areas. For example, mission alignment and references are critical across innovative finance tools like outcome-based finance or even blended finance tools. However, other factors keep funding away from smaller grassroots NGOs; for example, there may be a certain minimum budget requirement, scalability and replicability are critical or compliance requirements may be higher. Innovative tools reduce the funding barriers for grassroots NGOs by ensuring that the eligibility criteria is not highly restrictive, in terms of minimum budget or funder compliance requirements. Thus, innovative funding tools have the potential to make funding more easily accessible to grassroots NGOs.

Case Study: Satya Special Schools, Pondicherry and their Experience with Fundraising

Satya was founded by a group of like-minded individuals who were keen on working with special needs children, especially girls. On learning about widespread abuse and neglect of children with special needs, and the inability of the mother, in most cases single, to take care of the child, the group started Satya Special School in 2003 as a day-care centre with 20 children with special needs. The organisation has since expanded to several programs, including education, inclusion, livelihoods, training, and advocacy, supporting more than 7500 children with disabilities and their families.

However, their journey particularly around fundraising has been a challenge, given the community they work with. The founder of Satya, Chitra Shah, mentioned the unease that Indian funders face, when talking about disability. She mentioned that only those who have a personal experience were willing to contribute, while others did not feel connected to disability issues, which are still largely seen as a subject of taboo. Sharing her experience with Indian individual donors, she said that most only wanted to support children with disabilities, who could join athletics or perform well in school. They were not happy supporting severe cases in which the children may not be independent, but were able to enjoy a better quality of life.

She contrasted this with international retail donors, who she felt were more empathetic. Not only was there more conversation and acceptance around disability, for them charity was an essential part of their life (particularly in Christianity). In many cases, donors requested that their donation support a child in a wheelchair or with a severe disability. Retail funding through an international intermediary therefore proved to be one of the most successful funding approaches for her organisation. From 2012 to 2022, the intermediary organisation would channelise foreign funds to Satya to support rural children. With a per child cost of INR 50,000, this approach helped them raise an average of INR 20,00,000 each year. The continuous funding also allowed them to work with greater flexibility, given the long-term nature of the grant, they could show long-term change, hire therapists, and even conduct door to door visits.

Unfortunately, the focus of the intermediate organisation shifted to Africa in 2022, and thus, their funding stopped. However, this group of empathetic donors that Satya was able to tap into helped them grow immensely.

5.3.3 Application Process: Grassroots Centric

Funders seem to consider the constraints and contexts of grassroots organisations while creating the application processes, actively shifting the burden away from the organisations to themselves. We mapped out the application process followed by the five funding organisations, across four innovative tools, which included trust-based philanthropy, small grants, OD funds and micro-philanthropy. We mapped aspects including the number of steps involved, documentation requirements, length of proposal, interview processes and support provided during the application process, among others. This mapping is presented below.

Table 3: Application Process across Innovative Finance Tools[4]

Innovative Finance Tool	Application — Step 1	Application — Step 2	Application— Step 3	Application— Step 4
Micro-philanthropy	**Visit organisations, spend time understanding their work, mission, strategy, impact, needs and challenges**	**N/A**	Select/reject organisation	
OD fund	**1.5–2 hour phone call with an organisation to understand their work and check alignment with its efforts—No Application Form**	**Check compliances, and for political affiliations**	Select/reject organisation	

[4]This table presents five cases that cover four innovative finance tools. It does not seek to generalise these findings across these tools.

Trust-Based Philanthropy - 1	**1.5–2 hour phone call with organisation to understand their work and check alignment with its efforts—No Application Form**	**Present proposal to selection committee**	Select/reject organisation	
Trust-Based Philanthropy - 2	**1 hour call with the organisation to understand the work of the organisation and alignment with its work**	**Invitations to organisation to submit a proposal. In some cases, they have agreed to a video recorded proposal in a regional language.**	Proposal presented to selection committee, which then approves or rejects	Additional compliance related documents requested
Small Grants	**Compliance check**	**Select/reject organisation**		

We found that most organisations had a three-stage application process:

1. The first stage involved either a short call or an email, or a proposal without a word limit in either Hindi or English, where grassroots organisations could share whatever they wanted to.

2. After a preliminary screening based on eligibility criteria, most contact the grassroots organisation for a longer call. During this call, they check for a fit based on their funding principles—alignment with vision, accountability and transparency, strength of the idea/strategy—and then select organisations to move onto the second stage. In the case of micro-philanthropy, the funder would visit the organisation, instead of conducting a call with the aim of understanding their strategy, impact, and needs and whether their money would be catalytic for the organisation or not.

3. The organisation would be selected or rejected at the third stage in most cases. Only in one case did we see a third stage in which the funder requested a detailed proposal for the investment committee. In one instance, where the organisation was not comfortable in sharing a written proposal in English, they allowed the organisation to submit a video proposal in Hindi. The proposal would then be submitted to a committee, which decides if the organisation should be funded or not.

In one of the cases of trust-based philanthropy, the compliance checks would be completed in the second stage and the shortlisted organisations forwarded to a selection committee, comprising grassroots leaders, nodal partners, and organisation members, who then make the final selections. In the case of OD funding, they conduct a field visit at the second stage to understand the work of the organisation better. Lastly, they would check for compliances and onboard the organisation. Two of the organisations mentioned that while undertaking compliance checks, they would often support them in getting certified or help them in cases where there were gaps in their compliance. One of the interviewees also mentioned that even if all the compliances were not in place during the selection, they might still select the organisation and work with them to get them all in order post selection.

The grassroots organisations we worked with shared that such practices helped them feel included and not overwhelmed with the application process. For example, one organisation's founder shared that they appreciated that the point of contact of the funding organisation was easily reachable or that in one award entry, they had the option of submitting the application in Hindi.

A very important insight here is the shift of the burden from the grassroots NGO to the funder, making funding accessible for them. Across the application processes, we note that the funder is taking on the burden of understanding the work of the grassroots NGO. This is different from mainstream funding which is often rigid, requiring a long application form to be filled in a language and style suitable to the funder. Not only do the innovative tools increase accessibility, they also shift power to the NGOs, who feel valued and not weighed down by having to conform to a particular language, structure, or articulation style. Additionally, innovative tools reduce costs for NGOs, the number of people-hours and money spent in crafting the perfect proposal can sometimes outweigh the fund received. In this case, since the funder takes on the greater charge of assessing the fit of the organisation, the cost for the NGOs goes down.

5.3.4 Principles Followed While Selecting an Organisation

An individual the researcher spoke to during this journey mentioned, "Ghode to ghaas charane ped pe nahi le ja sakte,"—meaning, you cannot take a horse up a tree to feed it. What he implied was that the nature of grassroots entities is different from other NGOs, therefore, you cannot fund them using the same principles, just like you cannot take a horse up a tree, just because it needs nutrition. Through our research, we observed that those who funded grassroots organisations might have echoed this sentiment as they had adopted unique, grassroots centric funding principles.

Founder-Funder Connect: This is a function of both the size of small organisations as well as the heavy reliance of grassroots organisations on the founder's vision. Most funders liked to engage closely with the founders, understand their vision, work, passion, and intent and then decide whether to fund the organisation or not. For example, in four cases of organisation development funding and trust-based philanthropy, a critical part of the application process involved conversations with the founder or visits to the organisation to understand the founder's vision. An interviewee also mentioned the critical role of the founder in organisation development, mentioning that they had to mandatorily spend 35 days over the course of two years in organisation development workshops, which were a part of the support to the NGOs.

An outlier here was retail funding. Four interviewees who worked in retail giving, or experimented with it for grassroots organisations mentioned that the criteria for retail funding was not just founder-centric. Another interviewee shared that information on vision, impact and strategy combined with good storytelling were critical since small-size individual givers did not have the time to invest in understanding the work of grassroots organisations, and therefore information provided on the organisations, and how they used the funds help these people make monetary decisions.

Understanding Impact: While the starting point for mainstream funding is also founder-centric, where references of organisations/founders play a critical role, additional factors are also considered during the application process. These include their theory of change, articulation of their vision, whether their model is scalable, their social return on investment, targets, the presence of a strong M&E system, their current partnerships and funders, team size and credentials and geographical reach, among many others. In the innovative tools we have delved into, these factors are also considered but they bear in mind the context of grassroots organisations. For example, funders know that grassroots NGOs will not have strong M&E systems or that their team size is small or their reach is limited. Thus, instead of requiring a rigid M&E system be in place, they may support them in assessing impact or building one. By spending time with the organisations, funders gain valuable insights into the theory of change, impact, reach, and current funding pipeline, among other aspects, through field visits and conversations with the founder and team members.

Take a Bet on New Ideas—Openness to Failing and Learning: While many mainstream funders seem to prefer to support tested models that can be scaled, funders of grassroots organisations are willing to bet on new ideas. One of the mainstream funders we spoke to mentioned that everything that needs to be solved, has been solved and therefore replication is the need of the hour, not new ideas. This is in stark contrast to funders of grassroots organisations that believe that grassroots entities have the solutions that best cater to the needs of the community and are sustainable, given their participatory nature. The very fact that they were supporting small grassroots organisations, with small teams in remote locations is also testament to their risk-taking abilities. One interviewee mentioned that they fund work around addressing masculinity—a theme rarely heard of. Another funder is supporting a small organisation in rural MP that is working on gender equality through martial arts. Two of the grassroots organisations the researcher volunteers with, one that works with Muslim women and another that works on conflict transformation in Gujarat, have received long-term grants from a leading philanthropy. Given the sensitivity around funding organisations that work with specific religious groups or castes, funding for such work is rare. Three funders did have reservations about funding "activisty" organisations or ones with political affiliations, particularly given the current crackdowns by the government on some organisations that have been vocal about government policies or politics.

Funders are also willing to fail in their investments or approach. One funder shared her experience of setting up a new project in Bihar that failed after a year, but was nevertheless seen positively as it had led to immense learning on the kinds of partner organisations they should work with. Another shared how he funded a school in a remote village for three years, but had to pull out because he realised that it was not a sustainable use of his money. We also noticed that interviewees often used the term "learning" while describing their journey in funding grassroots organisations. For example, an interviewee spoke about creating a more equal space, challenging the power dynamics between funder and organisation, mentioning, "we…position ourselves in a way that we're learning from them and they're not learning from us."

Thus, innovative finance tools for grassroots NGOs seem to be open to taking risks, working with a holistic understanding of impact and focussing on the people and processes as much as they do on outcomes.

5.3.5 Nature of Support Provided

In most cases, it is not only the fund rather there are many other aspects for which grassroots organisations are provided support. The nature of the fund provided is also unique—be it the duration of the fund, the terms on which it is given and the accountability mechanisms in place.

Untied or Organisation Development Funds: A common thread across funding models is that it is either untied or is usually for organisation development. Untied funding, as the word suggests, is not tied to any project specific expenditure. Funding for Organisation Development is specific to building the foundational capabilities of the organisation—accounts, HR, fundraising, M&E, communications, among others. These two categories of funding are different from what we see in mainstream funding models, where funds may be tied to line items or may not be used for "overheads." In the case of untied funds, the funds can be used for whatever the organisation may deem fit. This includes getting a generator for the office, getting classrooms painted, using the funds for teacher salaries or hiring a fundraiser.

Long Term: The funding is also for more than a year in most cases, giving grassroots organisations an opportunity to experiment, grow and learn, without the fear of losing funding. As one interviewee mentioned that he would be fine, "as long as the organisation does what it needs to, to stay relevant in the community."

Capacity Building: Seven out of nine organisations that we studied had an element of capacity building built into the fund—this could be organisation specific support, peer-to-peer learning, or OD support, based on the type of fund and the need of the organisation. There was a recognition that grassroots organisations need to build specific capabilities to be able to expand and diversify their funder base, to develop sharper strategies or build stronger foundations for their organisations, be it HR or accounts or M&E. We will talk in detail about capacity building for organisations in our recommendation section as well. The two organisations that did not provide capacity building support were both mainstream funders that did not have the bandwidth to support capacity building work. However, both these organisations offered capacity building grants that existing partners could apply for separately.

Access to Social Networks: The funders we interviewed were mostly well-known, credible voices in the social sector. The average age of the organisations we interviewed was 22.8 years. Therefore, they had strong connections to other foundations, HNIs, philanthropies and CSRs whom they introduced to their partner grassroots organisations. Their credibility, combined with introductions to other funders, helped grassroots organisations access more funding opportunities. As one of the funders mentioned, within a year of being a part of the fund, the grassroots partners were able to raise INR 28 crore, 85% of which was domestic funding. Thus, access to social networks and the credibility gained by grassroots organisations by getting affiliated to these funders opened more avenues of funding for them.

5.4 Challenges: Gaps between Innovative Funding Models and Grassroots Organisations

Despite innovative finance tools being able to serve the funding needs of grassroots organisations to a great extent, the overarching conclusion that many interviewees drew was that grassroots had to become mainstream. They had to build their organisational management skills, communications and fundraising efforts, and their capacity to become more sustainable. Unfortunately though, the lived realities of the grassroots organisations may make this “mainstreaming” expectation quite challenging[80]. Below we take a look at how the expectations of funders contrast the lived experience of these organisations, and the gap that continues to exist between the funder and the grantee.

Funder Expectation to Build Sustainability—Financial and Organisational: Given the reliance of smaller organisations on founders, some funders were sceptical of how the organisation would sustain in their absence. In a grant driven ecosystem, the question of what sustainability entails is a critical one. Funders believed that sustainability could come in various forms. First, by diversifying and increasing funding sources; the second, by developing a second line of leadership that can continue the mission and vision of the organisation. The third was developing standard operating procedures which could bring efficiency in functioning, without depending on any person (who in most cases is the founder). The fourth definition was creating revenue sources through for-profit social enterprises. Funders felt that grassroots organisations needed to actively develop these aspects within their organisations, which would signal more accountability and credibility. Some of the interviewees cited instances where the dependence of the grassroots organisation on the founder or the presence of a single funder made it challenging for them to continue to get funding.

On the other hand, this expectation is a difficult one for the grassroots NGOs to fulfil. First, sources of funding for grassroots organisations continue to be extremely limited, despite these innovative tools. Second, they often find it difficult to find and retain staff since they work in remote locations or are not able to offer higher pay. Since the grants they receive are often small, they do not have the resources to build a strong team, with team members often not working full time. Building organisational capacity can also be challenging, given the dynamic circumstances they operate in, both professionally and personally. The relative stability that the founders of larger NGOs might have does not come easily for grassroots founders. One of the grassroots leaders we interviewed cited how easy it was for founders of larger NGOs to say that they would put in 10–12 hours a day towards building their organisation. This he mentioned was very challenging for him. Even if he wanted to, he had other responsibilities. He did not have the resources to ensure that basics were taken care of at home or have an assistant to take care of his schedule or meetings. He was the first port of contact in his community, for any medical emergency or conflict. Sometimes, the community would receive government notifications for demolition of their houses overnight, he had to help rehabilitate and support them, while also liasoning with the government authorities. In addition to this, he ran a learning centre and worked on preserving art forms in his community. He did not have the privilege or the support system to work on organisation building, given the circumstances he lived in.

Perceived Challenge of Mission Spread: As we saw in the literature review, many grassroots NGOs might have started off as volunteers supporting government projects, implementing projects funded by international aid, or providing last mile services for a larger NGO. With the withdrawal of international aid in the 1990s and then the change of the FCRA norms, many NGOs that formalised started to struggle to raise funds. In such circumstances, many grassroots NGOs took up short-term projects, which may not have been completely related to their area of work, but kept them afloat. Even though the funding stopped, the grassroot organisations did not see the demands on them to respond to community needs disappear. Additionally, many grassroots NGOs essayed multiple roles in their communities. For example, one of the organisations we work with provides emergency services, counselling and legal support, access to entitlements, runs leadership programs, and two learning centres. While all these address critical challenges in the community, the areas of work become quite widespread, which make their strategy quite fluid. This, some funders feel, is not ideal for grassroots NGOs. Another challenge that was observed by one funder was that some NGOs may gradually shift away from the organisation's mission towards fundraising to keep it running which could potentially lead to the adoption of strategies that may not be the best for the community or the organisation. This was not meant to question the intent of the organisation, rather to show that organisations may need support in creating suitable strategies that could balance their funding requirements, along with the needs of the community.

Challenge of Running a Standardized Formal NGO Model: A question that emerged in some of our conversations was "do grassroots entities really need to function as NGOs?" Is there another alternative? What really is their theory of change? Is there another informal model that would work better? 30 years back, citizen action was rewarded primarily through small stipends to cover food and travel. They would be engaged in other income generating activities while also working for the community. Now that many of them have formalised into NGOs, they struggle with the challenge of running an organisation and working for the community's development.

Formalisation of grassroots work has also taken forms that may not be suitable for their contexts. Some grassroots NGOs we work with mentioned feeling "stuck" in having to operate in a manner that funders understand, that is, creating theories of change, having a mission and vision statement, setting up M&E systems, but not really understanding the why behind these ideas. These continue to feel like jargon to them, ideas or concepts that do not make sense in their setting. Unfortunately, the development sector largely recognises NGOs that operate in this manner; there are limited role models for grassroots NGOs to operate differently, based on their contexts. Thus, while grassroots organisations try to emulate these practices, there is limited understanding that the way in which they formalise might have to be different.

Gap in Support Required vs Support Provided: Operating formal NGOs in the regularised manner mentioned above requires high touch support and funders recognise this. As one funder pointed out, "I can only work with 3-4 organisations. If I scale, I'll become compliance driven too." Given the specialised attention that grassroots organisations may need, owing to their lack of resources and their contexts, the time taken to work with them is significant. One of the interviewees mentioned that they are not keen to expand their work with grassroots because they do not have the human resources to support them. Another interviewee from an organisation that supports organisational development mentioned lack of consistency in learning, while another mentioned a certain lethargy to change. This need for a high touch model can act as a deterrent for funders to start or expand their pool of grassroots organisations. Critically, funding organisations that do recognise and provide this support have shared that they face challenges in raising funds.

Gap Between Demand and Supply of Funds: "Grassroots ko garib hi mante hai", a phrase shared by a founder of a grassroots organisation, highlights the situation of grassroots entities. Unequal power structures skewed towards what an interviewee called "white collar funders" makes it challenging for them to claim their space. Certain preconceived notions of grassroots work not being systemic or scalable or only to satisfy a personal feel-good factor, all affect how grassroots get funded (or don't).

Their lack of representation in public discourses, and development sector events is also fairly visible. For example, in a meeting the researcher attended to discuss partnerships between NGOs and the government, there was no representation of grassroots organisations, and others in the room did not feel the need to include them either. The NGOs we spoke to talked about how they get treated by funders. One organisation's funding got cut over a phone call that a lady made while driving, another was asked to unceremoniously leave due to FCRA concerns and a third never felt comfortable enough to apply for mainstream funding owing to language barriers saying "I don't understand this jargon." One of the organisations also mentioned how a larger NGO completely ignored the untimely demise of a grassroots leader who was helping them distribute ration kits during COVID. This perceived lack of respect and apathy makes it even more challenging for grassroots NGOs to claim their space.

The quantum of money getting delivered through innovative funding tools continues to remain limited. While it is difficult to estimate the amount of money going to grassroots organisations through these tools, as highlighted in the literature, the demand is significantly more than the supply. Unless there is more space created for grassroots organisations, and better funder education, these power structures will remain, and grassroots NGOs will be treated as "gareeb"(poor).

5.5 Potential Ideas to Improve Funding to Grassroots NGOs: Alternatives and Ecosystem Enablers

As we have seen above, there are gaps that exist in the current giving ecosystems for grassroots entities—both in terms of the quantum of funds as well as the expectations of funders versus the realities of grassroots NGOs. Through our interviews, we tried to explore ideas that could help bridge these gaps.

Giving Circles: While not a very new concept in the development sector, giving circles have not necessarily been leveraged for grassroots giving. Giving circles are a form of retail giving in which groups of individual donors pool their resources to support a common cause. Intermediate organisations like SVP India, Dasra, and Give India facilitate these giving circles, which may be domestic or international. The advantage of a giving circle is that it reduces risk for the parties involved since many of them are giving together, the intermediate organisation provides credibility and assures accountability, that their money is being put to good use, and grassroots organisations benefit from accessing larger pools of funds. Giving circles also create more intimate spaces of sharing, reflection, and learning, where funders and grassroots organisations can meet and understand each other's perspectives. They also help break preconceived notions, address challenges and create avenues for working together, thus slowly shifting power structures. While we have not done a rigorous analysis of the impact of giving circles for grassroot NGOs, it is definitely an area worth exploring in further detail.

Creating For-Profit Social Enterprises: Since the 1990s, the Indian government and NGOs have had a complicated relationship; where the government relies on NGOs to reach the last mile, but strictly monitors their activities and funding. In recent times, this relationship has gotten more strained, and funding, while increasing year on year, is going to just a few organisations. In such a situation, two of our interviewees suggested that organisations could look at starting their own for-profit social enterprises. Drawing from Gandhian philosophy of self-sustainability, most of the initial NGOs in India were social enterprises (like the Khadi Institutions), that would provide sufficient income and profits which could be used for grassroots work. One of our interviewees shared, from his experience, that program costs for grassroots work are prohibitively high—a physical space for meeting, tea/snacks for people who come, and costs of IEC materials. Social enterprises have the ability to create a physical asset like a hall that can be leveraged for grassroots work, and the profits can be channelised towards mobilisation, awareness etc., which won't come under the scanner of the government. Such enterprises continue to exist even today, midsize social enterprises employing 20–25 people, and generating profits to support grassroots work.

The challenge here is that not every grassroots leader or volunteer has the capacity to set up a business. Even if they do, the process of setting up a successful enterprise in rural India is extremely challenging— access to infrastructure, funds, resources and markets are all very challenging. Thus, while this may not be a viable option for many people, for those who are entrepreneurial, it could provide the economic stability required to carry out grassroots work.

Mother-NGO Models: This model continues to exist even today, but the nature of the model has evolved. In this model, a larger NGO would raise funds, ensure accountability, and interface with funders, and smaller grassroots organisations would focus on implementing programs. This allowed smaller NGOs to focus on execution while benefiting from the credibility and resources of a larger partner. This model suffered due to the change of sub-granting laws, where foreign funds could not be sub-granted to other NGOs. While organisations like Aga Khan Rural Support Programme (India) (AKRSPI), Pradan, Jan Sahas and SRIJAN continue this model, many large NGOs have substantially paused this model since a larger part of their funds come from international sources. Reviving this model would require NGOs to actively work towards obtaining domestic funds, which the government can facilitate by incentivising domestic giving.

Funder Education: Our interviewees shared that one of the ways to increase the fund pool for grassroots NGOs, is to educate other funders—CSRs, HNIs and foundations among others—on the importance of giving to grassroots. They acknowledged that grassroots giving requires time and effort. It cannot be done sitting in a corporate office, without understanding the context of grassroots organisations. As Luis Miranda shared in a recent article on IDR ("Funders, Stop Blaming Nonprofits," 2024), funders make excuses to not fund grassroots NGOs, they may want to fund larger NGOs "... because it's easier to give out a few large grants than to make the effort of identifying regional nonprofits and giving smaller, multiple grants to them." Our interviewees shared similar sentiments mentioning that funders like their "comfort zone," they prefer sharing successes than learning from their failures and often use the excuse of lack of scale to not work with grassroots organisations. In the case of CSR, the rules and laws may make it challenging for them to give to the grassroots, but there are CSRs that do put in the effort to support grassroots work, like Axis Bank Foundation. Thus, there is a need to educate funders on giving to grassroots organisations. In this regard, interviewees suggest social media campaigns, sharing more success stories of grassroots NGOs, organising events which bring together funders and grassroots leaders, and even getting some well-known, credible voices, to champion grassroots giving. Some of this work is already ongoing, but there is need to scale it further; for example, Dasra took two of its grassroots leaders for a meeting with international funders to discuss how they could amend their grant making to include smaller NGOs. The Indian Development Review has been posting case studies on how supporting grassroots NGOs can lead to sustainable impact, it has interviewed sector experts, and also published critical pieces on the current state of funding. Another initiative around funder education has been through Bridgespan's effort called "Pay What it Takes" aims to educate funders on the need to support all aspects of an organisation's cost, not just the program costs, also discussing larger themes of underfunding. Dasra recently also convened a meeting of funders to discuss trust-based philanthropy with key stakeholders in the funding and not-for profit ecosystem. These efforts need to multiply and become more pronounced, while also delving deeper into uncomfortable questions around power hierarchies, decolonising funding practices and creating space for grassroots NGOs from marginalised communities.

Capacity Building of NGOs: Capacity building for grassroots organisations also emerged as a critical node through which entities could increase their chances of funding, and could include contextualised and need based sessions on strategy, communications, compliance etc. Interviewees emphasised the need for these workshops to be conducted in regional languages. The importance of peer-to-peer learning and sharing sessions were highlighted as they would not only give grassroots NGOs an opportunity to learn from organisations with similar contexts and challenges, it would also build the confidence of NGOs facilitating these sessions. As mentioned earlier, many of our interviewees supported organisations in these areas, but their efforts are still limited—there is scope to expand grassroots-focused incubator programs or capacity building programs. Some of the current examples of capacity building include Dhwani Foundation in Bangalore that runs multiple programs for grassroots organisations to build their capacity on four key parameters—financial management policies, compliances, governance, strategic clarity and fundraising, and donor management. Grassroots Resilience Institute and Rebuild India provide need-based support to grassroots organisations along with peer-to-peer learning opportunities. ATE Chandra Foundation and RNP Foundation also provide capacity building support and grants respectively.

Apart from increasing the number of organisations that provide such support, there is a need to step back and analyse if capacity building is truly meeting the needs and contexts of grassroots NGOs; does it only aid in fundraising or does it also help the organisation achieve its vision and mission? By creating a standardised template for how NGOs should function, are we taking away the essence of grassroots NGOs? Does it take away or add value to how they contribute to their communities? These are some questions that might be worth looking at.

6. Conclusion and Recommendations

This research has given us an opportunity to understand the landscape of innovative finance tools that are being leveraged for funding grassroots organisations. At a time when funding for grassroots initiatives is shrinking, a deep dive into these tools helped us understand the potential for expanding the sources of funding for them.

Using the definition of innovative finance and three of its critical characteristics—increase in the pool of funds, effectiveness of existing capital and private money used for public good. We narrowed down eight innovative finance tools that were being leveraged for grassroots funding—trust-based philanthropy, organisation development funding, micro-philanthropy, community-based funding, fellowships, retail fundraising, awards/grants, and incubator programs. We were able to deep dive into five of them, as we were not able to sufficiently cover fellowships, community-based funding and incubator programs.

In trying to understand the principles of these innovative tools, we recognised that it was critical for funders to understand and empathise with the context of grassroots organisations to be able to give to them. Therefore, in studying the backgrounds of our funders, we realised that all of them had spent time with such organisations, and appreciated the value they add to society. While mainstream funders may have dismissed such organisations as small, lacking scale or vision, these funders saw them as critical to the empowerment of communities, driving participatory change and facing additional challenges that larger NGOs from upper caste communities may not face.

The recognition of these constraints led them to adopt grassroots centric funding practices, which put the burden on the funder and not the NGO. They made an effort to identify NGOs, understand their theories of change, challenges and needs. They took the risk of funding NGOs or ideas that could potentially fail. They listed eligibility criteria that welcomed grassroots NGOs, without minimum budget or complex compliance requirements.

Most funders also saw their role as facilitators and not just funders, often going above and beyond funding to help the organisations move towards their missions. They immersed themselves in the realities of grassroots NGOs to provide need-based support—be it in communications, fundraising, strategy or monitoring and evaluation.

However, this kind of immersive funding is time consuming, and tough to scale. It also largely assumes that creating formal structures within NGOs is the only way they can survive. Owing to the high level of engagement, the risky nature of the funding and potential low returns on investment, these tools are also not considered seriously by mainstream funders. They make excuses that grassroots work is not systemic or scalable and it is tough for them to manage a large number of smaller grassroots NGOs.

Thus, in the short run, we suggest exploring additional ways of making grassroots giving more appealing, while also providing platforms and supporting grassroots NGOs to make their case. This could include policy changes that promote domestic giving, creating smaller giving circles, and working on funder education. There is a need to address the uneven power structure between funders and NGOs, particularly in the case of grassroots organisations, and start facilitating more dialogues between them. The biases and perceptions that funders have about the organisations also need to be addressed, to build confidence in them that there are people who trust and believe in them and their work. Additionally, we should consider whether the NGO model in its current form is the best mode of functioning for grassroots organisations. Are there alternative models that can be considered? By mainstreaming grassroots organisations, are we making them more effective and fundable, or are we taking away the soul of what they were doing? These are some questions that we continue to ask ourselves, and hope that more platforms can help address them.

6.1 Summary of Findings

This study delved into the complex dynamics between grassroots organisations in India and the entities that funded them. Through extensive interviews with senior leaders in funding organisations, experts in the funding ecosystem, intermediaries, and grassroots organisations themselves, we uncovered key insights into how grassroots work was perceived, funded, and supported.

6.1.1 Perceptions of Funders Towards Grassroots Organisations

Funders recognised grassroots organisations as entities deeply rooted in their communities, often led by individuals from within those communities. They appreciated the participatory, organic, and context-specific nature of grassroots work, acknowledging that these organisations addressed interconnected challenges that did not exist in silos. However, funders also noted that grassroots organisations often lacked the resources to run effectively—not due to a lack of capability but because of environmental constraints such as limited access to funding sources, expertise in fundraising, or monitoring and evaluation (M&E) skills.

Some funders expressed concern over the political or activist nature of grassroots work, especially in the current political climate. While some were willing to take the risk to support such organisations, others were cautious due to potential repercussions or conflicts with governmental partnerships.

- **Funding Criteria and Principles:** The funding models examined prioritised proximate leadership and community involvement, seeking organisations that aligned with their vision and sector focus. Basic legal compliance like 12A, 80G, and audited financial statements were generally required, although some funders assisted organisations in fulfilling these requirements. References played a crucial role in establishing credibility and trust.

  A strong founder-funder connection was emphasised, with funders often engaging closely with founders to understand their vision and passion. Unlike mainstream funding models that might prioritise scalability and tested models, funders of grassroots organisations were more willing to take risks on new ideas and unproven initiatives.

- **Nature of Support Provided:** Support extended beyond financial grants to include untied or organisational development funds, long-term commitments, and minimal reporting requirements. Capacity building was a significant component, offering grassroots organisations assistance in areas like compliance, fundraising, and strategic development. Access to social networks provided by funders enhanced credibility and opened additional funding avenues for these organisations.

- **Gaps and Challenges:** Despite innovative funding approaches, a gap remained between funder expectations and the realities faced by grassroots organisations. Funders often expected these organisations to "mainstream" by building robust organisational structures, diversifying funding sources, and developing formal strategies. However, grassroots organisations struggled with limited funding, staffing challenges, and the multifaceted roles that founders played within their communities.

The challenge of mission spread—where organisations worked across multiple areas due to community needs—could lead to fluid strategies that funders might find less effective. Moreover, the formal NGO model might not suit the unique contexts of grassroots entities, leading to questions about the suitability of the current formalisation processes.

A significant gap existed in the support required versus what was provided. High-touch support models were resource-intensive, and not all funders had the capacity to offer the level of assistance needed. Additionally, power imbalances and preconceived notions about grassroots organisations contributed to a limited supply of funds relative to the demand.

6.1.2 Potential Improvements in Funding Models

To bridge these gaps, several ideas emerged:

- **Giving Circles:** Pooling resources from individual donors could reduce risk and provide grassroots organisations with larger funding pools, facilitated by intermediaries that ensured credibility and accountability.
- **For-Profit Social Enterprises:** Encouraging grassroots organisations to establish revenue-generating enterprises could provide financial stability and support their community work, although this might not be feasible for all due to the challenges of running a business in rural areas.
- **Mother-NGO Models:** Reviving partnerships, where larger NGOs handle fundraising and compliance while grassroots organisations focus on implementation, could alleviate some operational burdens, provided regulatory challenges can be navigated.
- **Funder Education:** Educating funders about the value of grassroots work through campaigns, success stories, and events could challenge existing power structures and biases, encouraging more equitable funding practices.
- **Capacity Building:** Expanding capacity-building programs that were context specific and offered in regional languages could empower grassroots organisations to develop necessary skills without compromising their unique approaches.

The study highlighted the nuanced perceptions funders had of grassroots organisations and underscored the need for funding models that were adaptable to the unique challenges these organisations faced. While innovative funding approaches had made strides in supporting grassroots work, there was room for improvement to ensure these organisations could thrive without compromising their core values and methods. By reimagining funding models and fostering collaborative relationships grounded in mutual respect and understanding, funders and grassroots organisations could work together to create sustainable, impactful change in communities across India.

7. Implications For Practitioners

The findings from this study carry significant implications for practitioners involved in the funding and support of grassroots organisations in India. Understanding the unique contexts, challenges, and strengths of these organisations is crucial for fostering more effective and equitable partnerships.

Enhanced Awareness and Empathy: Practitioners should aim to deepen their awareness of where grassroots NGOs originate, the environment in which they operate, and the specific obstacles they face. Recognising that power structures exist even within the NGO ecosystem is essential. This awareness can foster greater empathy and enable practitioners be sensitive to the inherent inequalities that may influence interactions and expectations, when they approach collaborations.

Supporting Grassroots Organisations on Their Terms: It is imperative for practitioners/facilitators/funders to reflect on whether the mainstream NGO model is the most appropriate framework for grassroots entities. Rather than imposing external goals or strategies, practitioners should actively consider how to support these organisations in achieving their own objectives. This involves questioning existing assumptions and being open to alternative models that may better suit the unique contexts of grassroots organisations. By positioning themselves as allies, practitioners can contribute to creating a more enabling and inclusive environment that respects and amplifies the voices of grassroots leaders.

Re-evaluating Funding Practices: For funders, there is a critical need to scrutinise existing funding practices to assess how funder-centric they truly are. Practitioners should consider whether current requirements and expectations are reasonable or whether they place undue burden on grassroots organisations. This may involve simplifying application processes, offering untied funds, and reducing onerous reporting requirements. Going the extra mile to understand the work of grassroots organisations—through direct engagement, field visits, or open dialogues—can lead to more meaningful and effective support. By adopting a more flexible and responsive approach, funders can better accommodate the realities of grassroots operations and contribute to their sustainability and impact.

Creating Equitable Partnerships: Practitioners should strive to balance power dynamics by fostering equitable partnerships that value the knowledge and expertise of grassroots organisations. This includes recognising the importance of local leadership and community involvement, and ensuring that support extends beyond financial resources to include capacity building and access to networks. By co-creating strategies and solutions with grassroots partners, practitioners can help build organisational resilience without compromising core values and methods of the organisations.

8. Limitations of this Study

While this research provides valuable insights into funding models for grassroots organisations in India, it is important to acknowledge its limitations.

Limited Exploration of Funding Tools: Due to time constraints and challenges in securing interviews, the study did not delve deeply into certain funding tools such as community-based funding, fellowships, and incubator models. These tools could offer additional perspectives on funding practices from the funder's standpoint, and their exclusion may limit the comprehensiveness of the analysis. We were also not able to study any international examples. We believe that learnings from them could have also added to the richness of our research.

Sampling Method and Scope: The research utilised snowball sampling, which may not capture the full spectrum of the existing funding tools. Throughout the study, we kept encountering new tools or organisations that belonged to one of the eight innovative tools we studied. We were not able to investigate these tools thoroughly. Consequently, the findings may not represent the entire universe of funding options available to grassroots organisations.

Representativeness of Sampled NGOs: The grassroots NGOs involved in the study were based primarily in northern India, and the sample size was limited to five organisations. This small and geographically concentrated sample may not adequately reflect the diversity of grassroots NGOs across the country. Regional variations and different local contexts could influence the applicability of the findings to other areas.

Limited Engagement with Mainstream Funders: The study did not include direct interviews with mainstream funders. Insights into the challenges associated with mainstream funding were derived from the perspectives of grassroots NGOs, intermediaries, or the researcher's own experience in fundraising. This indirect approach may not fully capture the viewpoints or considerations of mainstream funding organisations.

Need for Broader Examples: The examination of current funding tools included only a few examples, such as two micro-philanthropists and two instances of trust-based philanthropy. A broader range of examples could enhance the depth and nuance of the analysis, providing a more comprehensive understanding of the effectiveness and challenges of different funding models.

9. Implications for Future Research

This research could potentially serve as a starting point for longer and deeper conversations and research on supporting grassroots organisations. In a time where scale and replicability have taken precedence in the development sector, this research could help bring focus to smaller NGOs that are in many ways the backbone of “development” and citizen action.

While this research has highlighted some key principles of grassroots funding, we believe there is scope to explore its significance even for funding larger NGOs. For example, will trust-based philanthropy work better for larger NGOs, or will it be too costly and time consuming? Similarly, an important finding of this research is the need for empathy in funding organisations. Future research could explore if empathetic funders lead to more effective funding practices and better outcomes for NGOs.

Future investigations could also aim to address the gaps in this research. For example, it could explore a broader spectrum of funding tools, including community-based funding and fellowships, to gain a more comprehensive understanding of their effectiveness and suitability from both funder and recipient perspectives. Expanding the sample to include a more diverse and geographically varied group of grassroots organisations would provide insights into regional differences and unique local challenges, ensuring that findings are more representative of the sector as a whole.

Engaging directly with mainstream funders in future studies would be crucial to understanding their viewpoints, constraints, and potential willingness to adapt funding practices to better support grassroots entities. Additionally, researching alternative organisational models and capacity-building strategies that are tailored to the specific contexts of grassroots NGOs could reveal new approaches to enhance their sustainability and impact.

By addressing these gaps, future research can contribute to developing more inclusive, effective, and context-sensitive funding mechanisms that empower grassroots organisations and larger NGOs to fulfil their missions and drive meaningful change in their communities.

Declaration of conflict of interest

I declare that there are no conflicts of interest related to the research, authorship, and publication of this paper. This includes financial, professional, or personal affiliations or relationships with any organisations, institutions, or entities that could be perceived as influencing the content or conclusions presented in this work.

All funding sources and support for this research have been transparently acknowledged, and I affirm that the findings and recommendations are based solely on the analysis and evidence gathered during the study.

Declaration of Generative AI and AI-Assisted Technologies

In preparing this manuscript, I have not used AI tools and take full responsibility for the content.

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Appendix

Appendix 1: Mapping of Innovative Finance tools—Principles, Portfolios, and Eligibility

Funders	Domestic/ International	Instruments deployed	Orgs funded	Fund per org	Long term/ short term grant?	Type of organisations (examples)	FCRA	Sector	Revenue/ Budget eligibility	Founder Background	Principles	Notes
Give India	Domestic	Retail Giving - individual, payroll, event based	200+	Org based - no cap	Long term dependent on retail donations		Not a requirement		N/A		Compliance and background check	
Give.do	Domestic	Crowdfunding	200+ NGOs	Org based - no cap	Based on duration of crowdfunding	KISS, Isha Foundation, Rural Development India	Majority have FCRA	Cancer care, education, disability, women, health, livelihoods, children	Over 1 cr	Not specific	Compliance and background check	
APF Grants for NGOs	Domestic	Grant	550+ NGOs	Wide range available	Long term-3 years	Range of NGOs across all budget sizes	Many have FCRA	Across all sectors	N/A	Not specific, although many grassroots organisations are funded by APF		

Rebuild India	Domestic	Trust-Based Philanthropy	100 per year	12 lakhs per annum	Long term - 3 years	Srishti, Vanavil, Rural Development Council	Many have FCRA	Across multiple sectors	Majority above 40 lakhs	53% women led, all founders are either from or have deep roots in the communities they work with	They check for Proximity, inclusivity, Community centric, vulnerability	If global philanthropic funding, then is FCRA a requirement?
British Asian Trust	International	Outcome based financing (DIB)	6		Project based	Gyan Shaala, KEF, EI - Quality Education OBF tool	All have FCRA	Education	Over 10 cr			
Nudge	Domestic	Incubator	100+	20 lakhs	1 time grant	Labhya, Skilled Samaritan Foundation, Karya, ISD	Many have FCRA	Livelihoods	N/A but majority organisations are not grassroots	50% women, sector agnostic, majority cohort from urban educated backgrounds		Proximity to community of these orgs is limited
Bawarchi Jamat/ Saathi Trust	Domestic	Community Crowd funding	Own Organisation		Crowd-funded each year	NA	NA	Education	20-30 lakhs	Founders are all from the Bawarchi Community themselves	Trust, social networks in local community, cause resonates with the community	
eivolve fund	Domestic	Grant	10	20 lakhs one time grant	1 year	India Recycles, Outlawed	No	Agnostic - focus is on volunteering	N/A	Diverse backgrounds - some have public policy degrees, largely English speaking backgrounds	Scale, orgs <4 years, focus on volunteerism	

Action Aid	International	Fellowships	300	15k per month	long term and short term	Parwaaz, Buniyaad	Previously, would sub-grant, now they have stopped	Across sectors	N/A		Grassroots organisations	
Jan Vikas	Domestic	Fellowships (individual based) + grants	12 organisations, 13 CBOs	Need based	long term	Parwaaz, Buniyaad	No	Rights based issues	Grassroots	Majority funders are from marginalised community		
Thousand Currents	International	Grants	107 in 42 countries	$65000 per year	Thematic: 10 years, Tactical: 1-3 years	Southern Peasant's Federation of Thailand, Sahyog Sansthan (India)	Yes (they are an international donor)	climate, food and economy	N/A	Grassroots movement based organisations	nonlinear, flexible, and multi prong	
Grassroots Resilience Institute	Domestic	OD support	20	6-12 lakhs per year	3 years	Kranti	No	migration and gender	no range - has orgs that have budgets of 2 lakhs upto 30 lakhs	From the communities they serve	CBO, in sectoral focus areas	
GROW fund	Domestic	OD support	100 NGOs	40 lakhs per year	2 years	Indus Action, Reap Benefit	Yes	N/A	1.5 cr	N/A	Small and mid-sized community-based organisations from across the country, who have been combating and enduring COVID-inflicted distress	

RNP	Domestic	Trust Based Philanthropy	118	Dependent on the needs of the organisation, average - INR 70,00,000	Long term, exit post 10 years	Goonj, Medicines Sans Frontiers, Sahjani Shiksha Kendra	No	5 thematic areas- gender equality, active citizenship, climate, mental health, access to justice	N/A, but prefer to work with well established NGOs since they don't have the bandwidth to handhold	6 NGOs have leaders from the community	Trust based, long term, flexible funding	
Micro-philanthropy	Domestic	micro-philanthropy	3-4	Micro-grants up to 2-3 lakhs	Long term	Titli Foundation	No	No specific sector	Works purely with grassroots organisations	Founders are from the community	Long term, flexible funding	
APF - North East Fund	Domestic	Small grants		Small grants	short term		No	not in education/ health	Have an average annual expenditure of INR 25 lakh or less.	Direct engagement with a vulnerable or marginalised community.		
Plus Trust	Domestic	Fellowship	88 in current cohort	micro-grants	short term (around 1 year)	Awadh People's Forum, Project DEFY	No	gender and social entrepreneurship	Budgets <20 lakhs	women changemakers from rural resource poor communities	Providing micro-incubation to early stage/ idea level NGOs/ social enterprises	
Swiss Aid	International	Trust Based Philanthropy	60+ (7 in India)	INR 15 cr annually for 7 projects in India	Long term	-	Yes	preventing hunger, ecologically sustainable agriculture, secure water supply, specialist training courses and enhanced awareness	N/A	Swiss aid projects implemented by local groups		

Mari-wala Foun-dation	Do-mes-tic	grass-roots focused grants	50+	-	8 types of grant programs	Anubhuti, Ashiyana, Ekjut	No	Mental Health	N/A	Organi-zations/ collec-tives led by per-sons from margin-alized commu-nities		
ATE Chan-dra	Do-mes-tic	Small Grants	-	1 cr given every year to grass-roots organisa-tions	short term		No	N/A	N/A	grants for grass-roots organisa-tions	Impact is import-ant, fund "risk- free" initiatives	

From the Reviewer/ Mentor

Industry and academia often function in silos, limiting the exchange of contemporary ideas, novel insights, and practically relevant knowledge. ISDM CIFSI's fellowship is a unique attempt to bridge this gap and develop academically rigorous yet practically applicable knowledge on some of the key ideas shaping the world of social finance. I have had the privilege of participating in the inaugural cohort's 12-month journey– both as a mentor and reviewer - witnessing first-hand their exploration of the complexities and challenges inherent in innovative finance structures. These structures hold the promise to disrupt traditional understandings of financing for social innovation.

From understanding the practical challenges and both the intended and unintended consequences of blended finance and social impact bonds to outlining the promise and potential of catalytic guarantee structures for financial inclusion and, further, to advocating for the adaptation of innovative finance approaches to the specific needs of small-scale, community-based, development organisations, the CIFSI fellows have engaged with a range of topics and ideas that define the world of innovative development finance.

The papers present several novel insights and, in some cases, reinforce existing understanding through contextually relevant, rigorously collected qualitative data and expert interviews. One central message resonates across all the papers – a greater empathy, a spirit of experimentation, and 'client centricity' are perhaps the most crucial elements for realising the promise and ensuring the success of innovative finance mechanisms. Yet, too often, these elements get relegated to the background as we focus on the intricacies of complex structures, transaction costs, and impact measurements. The papers, collectively and individually, call for a subtle behavioural change among practitioners. Funders may benefit from a change in focus, shifting their attention from mere numbers to the actual people they intend to serve. Simultaneously, the community of NGOs and civil society organisations may benefit from greater openness to change and experimentation rather than approaching innovative finance from a position of scepticism.

Overall, this volume of research makes an important and timely case that finance can indeed be a force for positive social change.

Priyanshu Gupta
Reviewer and Mentor

From the Reviewer/ Mentor

I had the privilege of reviewing the research conducted by a group of talented and passionate young fellows on innovative finance and social impact. Their work stood out not just for the depth of analysis, but for their fresh perspectives and innovative ideas on a complex issue.

The fellows demonstrated a good understanding of mainstream blended finance frameworks, but went beyond that. They courageously pushed boundaries, exploring unconventional uses like innovative finance for community-based organisations, addressing credit gaps for women entrepreneurs in the missing middle, and analyzing outcomes-based financing within the Indian context.

Their research papers asked tough questions, focusing on deeper conceptual constructs rather than superficial observations. The diversity of their solutions, balancing bold ideas with actionable steps, demonstrated critical and strategic thinking.

Overall, the fellowship showcased how fresh talent can bring new ideas to entrenched problems. The fellows' ability to innovate within blended finance, guided by experienced mentors, is a testament to their creativity, passion, and commitment to positive social impact. I'm excited to see their future contributions to this important field.

Anushree Parekh
Reviewer

Research Fellows

Ankur Sohanpal

Ankur is a seasoned impact sector consultant with 13 years of experience in social impact monitoring, evaluation, consulting, and operational risk management for social enterprises. Passionate about scaling impact, she aims to lead risk-rationed investments in deep-impact models. Currently, she develops new-age learning tools for early-stage startups at IIMA-CIIE.

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Shruti

Shruti, a Research Associate at IIM Ahmedabad, focuses on social entrepreneurship, particularly sustainable funding for grassroots nonprofits. Working with the Buddha Institute, she supports knowledge management. Previously at Indus Action, she improved citizen access to welfare. She holds a Master's in Public Administration from Columbia University and a B.A. in Economics from Delhi University.

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