CASE STUDY REPORT

EVIDENCE AND INSIGHTS FROM PAYING FOR OUTCOMES IN INDIA

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INTRODUCTION

Despite impressive economic growth and development progress over the past three decades, India's significant challenges in meeting the Sustainable Development Goals (SDG) financing gap remain. The gap was estimated at $500-600 billion per year before the pandemic, and is expected to have expanded since 2020.[1] This is a trend seen across developing countries worldwide – where the financing gap has seen an estimated increase of $400 billion to the pre-COVID shortfall of $2-2.5 trillion per annum.[2] These challenges in financing also reflect in the outcomes seen on the ground – India ranks 120 out of 193 countries on the 2020 SDG Index[3] and continues to lag behind on SDG goals of alleviating poverty, ending hunger, reducing inequality, and ensuring decent jobs and economic growth. There is therefore a need to galvanise more capital from both public and private sectors to meet this funding requirement and spend it effectively.

One of the responses to this challenge has been a search for new funding and investment approaches, including corporate social responsibility (CSR), socially responsible investing (SRI), a focus on environment, social, and corporate governance (ESG), and impact investment. Within this area, impact bonds emerged as a new means to leverage blended finance for greater cross-sector collaboration, innovative services, and preventative spending. Most impact bonds globally are still in the implementation phase, as stakeholders continue to experiment with them in countries around the world. To date, 275 impact bonds have been launched across 38 countries. Collectively, these projects have raised over $741 million in investment commitments and aim to engage more than 1.7 million service users.[4] While the impact bond market continues to grow, it remains a small proportion of the overall SDG funding gap. Greater investment and scale are required to enlarge this contribution. This report takes stock of the state-of-play in India and synthesises the perspectives of key stakeholders on future enablers of scale.

RESEARCH AIMS AND METHODOLOGY

This study uses qualitative methods (interviews and a survey conducted between July and September 2021) to investigate detailed insights from key stakeholders such us funders, intermediaries, social investors, service providers, researchers, and public sector organisations In India around outcomes-based financing (OBF), a type of financial agreement whereby stakeholders such as risk investors and service providers are contracted and often paid on the achievement of outcomes. It combines these with documentary analysis and descriptive statistics of project-level data, to illustrate the landscape of impact bonds in India as of October 2022. It also discusses key learnings (including drivers, facilitators, and challenges) from stakeholders and considers future directions for scaling and sustaining impact.

LANDSCAPE OF OUTCOMES-BASED FINANCING IN INDIA

India is one of the leading lower- and middle-income countries (LMICs) to experiment with impact bonds. As of October 2022, it has launched four impact bonds, with more than $10 million investment committed and more than 360,000 service users anticipated to be engaged.[5] These impact bonds aim at improving education, healthcare, and employment and pay for outcomes, instead of inputs. They employ cross-sector collaborations and funding from donor and multilateral organisations to do so. In addition to the four impact bonds mentioned, a pipeline of new impact bonds is in development, alongside other projects within the wider outcomes-based financing space. Besides impact bonds, India has also experimented with social success notes and impact guarantees.

LEARNINGS FROM OUTCOMES-BASED FINANCING IN INDIA

Key drivers for using outcomes-based financing in India

Stakeholders mentioned five key drivers and expected benefits of using OBF:

1. **OBF instruments are driving a strong outcomes and impact focus.** Research participants were motivated to use OBF to increase focus on improving outcomes and impact. They highlighted that traditional grant structures may not pay sufficient attention to articulating, incentivising, and measuring the desired outcomes, and often focus on activities, outputs, and grant disbursement. Many felt that mindset may contribute to poor outcomes for service users

1. *Brookings, 2019; Aspen Network of Development Entrepreneurs, 2020*
2. *The Economic Times, 2020*
3. *Sustainable Development Report, 2020*
4. *Government Outcomes Lab, 2022*
5. *Government Outcomes Lab, 2022*

across different sectors. They highlighted a need for services to shift focus from inputs and activities to outcomes, in order to improve social impact.

2. **OBF is driving robust and independent evaluations to verify results.** Most OBF structures are expected to bring a focus on rigorous impact measurement and reporting, and therefore, not only strengthen accountability, but also contribute to generating high-quality evidence on what works.
3. **OBF drives innovation.** A focus on outcomes allows outcome funders to be more hands-off in the programme and its day-to-day operations, allowing flexibility for service providers to customise the service, experiment with different models and make changes to drive outcomes, based on the data and evidence from the ground and their own experiences.
4. **OBF projects are anticipated to be more nimble and agile.** This was demonstrated by the onset of COVID-19 and resulting adaptation of interventions delivered under OBF structures. COVID-19 served as an impetus to adopt more hybrid models (involving both in-person and virtual service delivery). OBF models – where inputs and activities are only a means to an end – allowed the flexibility to implementing partners to pivot their interventions to respond to ground realities such that desired outcomes could still be achieved. These changes were seen in both the Quality Education India (QEI) and Utkrisht impact bonds, with teams shifting to hybrid schooling (on QEI) and remote training for clinics (on Utkrisht). Performance monitoring also shifted to virtual means.
5. **OBF is expected to improve efficiency in spending and support momentum around investing in India – a country often seen as a pioneer in testing, proving, and scaling up innovations in international development.** For some outcome funders, OBF complements and amplifies a strong interest to work in India, especially in a technical and knowledge sharing capacity as equal partners to local stakeholders. While OBF currently comprises a small contribution to the SDG funding gap, its focus on outcomes can help improve efficiency of how money is spent – whether this comes from donors, taxpayers, or the private sector.

Key challenges within outcomes-based financing in India

The study highlighted the following findings in terms of key challenges faced in adopting OBF approaches in India, based on responses from stakeholders:

1. There was **considerable overlap with the challenges cited by stakeholders across the globe –** such as high transaction costs, protracted development timelines, and defining the right outcome measures. As seen globally, these challenges are symptomatic of early markets and can be mitigated over time as the market grows and matures with more transactions, better sharing of data, peer learning, and standardised contract templates.
2. However, stakeholders also reported **some unique challenges around navigating Indian laws, regulations, and rules,** especially with foreign funds, funds repatriated out of the country, funds under corporate social responsibility, and so on.
3. **Encouraging more investors to invest** in innovative models such as outcomes-based contracts can be difficult.
4. Unlike concerns documented in other research studies globally, there was **little mention of concerns around the financial risk, dependency of cash flows on outcomes achievement, and any negative perceptions** around outcomes-based financing among Indian stakeholders.

Key facilitators within outcomes-based financing in India

The study attempted to unearth factors that were found helpful in facilitating the development and implementation of OBF projects, with the findings from India being in line with global responses:

1. Collaborating closely with partners over an intensive development process helped build **long-term relationships.**
2. While technical aspects were challenging, **assistance from intermediaries and conveners** was instrumental and helped get projects over the line.
3. **Operational strength** from service providers boosted service quality.
4. Across the board, there was agreement that **lessons and learnings need to be captured more systematically and disseminated more widely,** including in international contexts beyond India. This is expected to collectively push the outcomes-based financing space forward and avoid the repetition of mistakes. For example, this can include a 'checklist' of steps that can help stakeholders understand what is involved. It can also involve building a glossary and common language for OBF, as well as templates for design and contracting.

AUTHORSHIP STATEMENT

Tanyah Hameed designed the study and coding framework, conducted the interviews, administered the survey, and drafted the report.

Ivjyot Oberoi organised interviews, conducted secondary analysis, and coded the interviews.

Mara Airoldi provided supervision over the project and feedback on the draft report.

We are extremely thankful to colleagues at the British Asian Trust for providing crucial insights, for inviting survey respondents and interviewees, and providing feedback on the draft report. We are also thankful to all our survey respondents, interviewees, and roundtable participants for their time and valuable perspectives.

APS	Affordable private schools
CSR	Corporate Social Responsibility
DIB	Development Impact Bond
BLI	Disbursement-linked indicators
ESG	Environmental, social, and corporate governance
GDP	Gross Domestic Product
GNI	Gross National Income
HDI	Human Development Index
IBs	Impact Bonds
LMICs	Lower- and middle-income countries
MSDE	Ministry of Skill Development and Entrepreneurship
NSDC	National Skill Development Corporation
OBF	Outcomes-based financing
PMKVY	Pradhan Mantri Kaushal Vikas Yojana
SANKALP	Skills Acquisition and Knowledge Awareness for Likelihood Promotion
SEBI	Securities and Exchange Board of India
SIB	Social Impact Bond
SRI	Socially responsible investing
SSN	Social success notes
STRIVE	Skill Strengthening for Industrial Value Enhancement

1. INTRODUCTION

1.1. BACKGROUND: INDIA'S ECONOMIC AND DEVELOPMENT PROGRESS

India's rapid economic growth over the past three decades has captured the world's attention. Since 1992, annual GDP growth has remained high, making it the fifth-largest economy in 2019 by nominal GDP.[6] Between 2013 and 2018, India was the world's fastest growing major economy, surpassing China.[7]

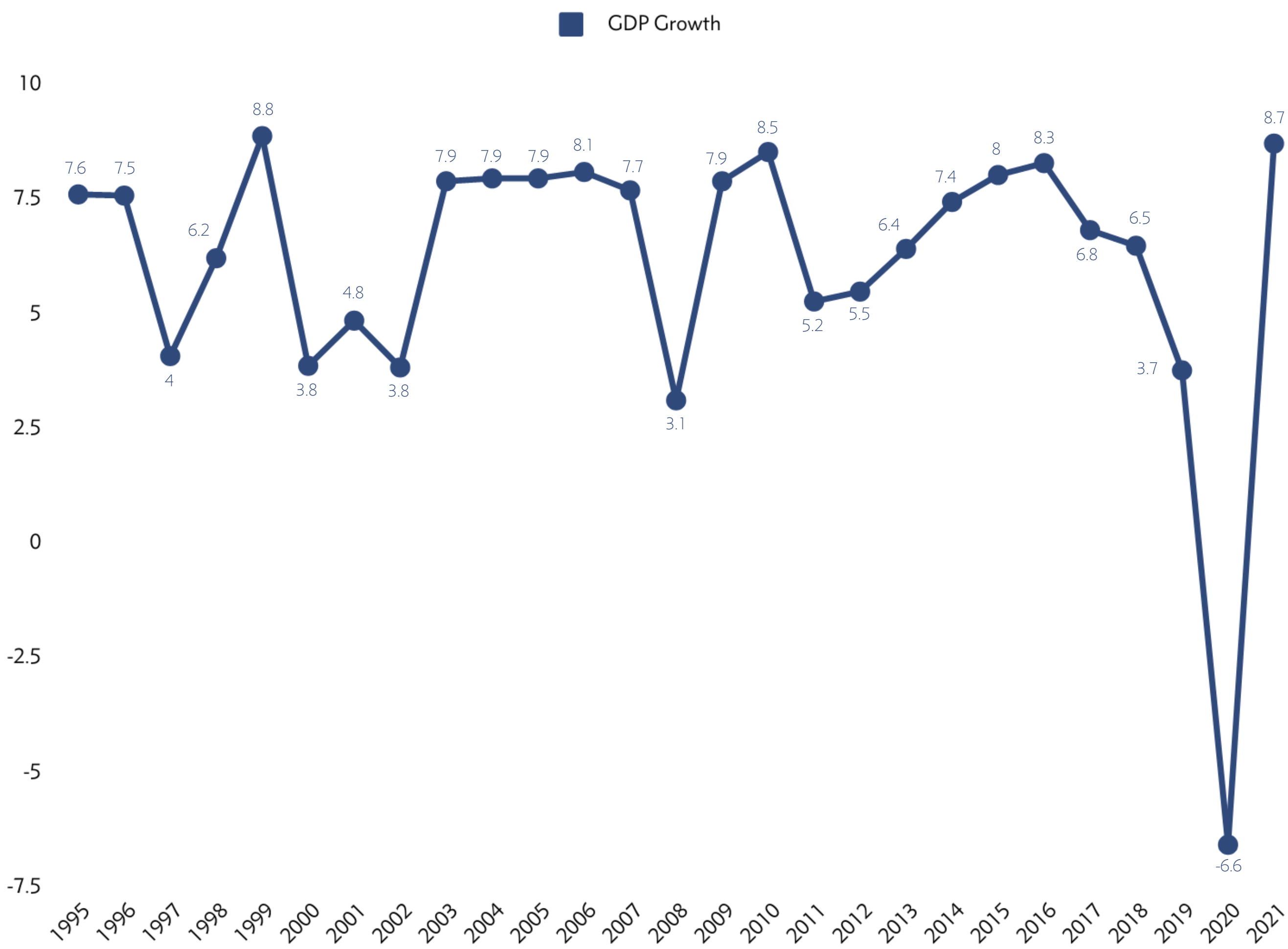


Figure 1: Annual GDP growth (%) for India. Source: World Bank, 2021

Economic growth in India has been accompanied by development progress. Between 2011 and 2015, India lifted 90 million people out of extreme poverty.[8] In its Human Development Report for 2020, the United Nations Development Programme (UNDP) placed India 131 out of 189 countries in 2019, at the Human Development Index (HDI) value of 0.645.[9] This places India above the average HDI for countries in the medium human development group (0.631) as well as the average for South Asia (0.641). Between 1990 and 2019, India's Human Development Index increased from 0.429 to 0.645 – an increase of 50.3%. This figure encapsulates an increase in life expectancy at birth by 11.8 years, an increase of 3.5 years in mean years of schooling, and a GNI per capita increase of 273.9%.[10]

6. *Investopedia, 2020; World Bank, 2020*
7. *International Monetary Fund, 2018*
8. *World Bank, 2021*
9. *United Nations Development Programme, 2020*
10. *United Nations Development Programme, 2020*

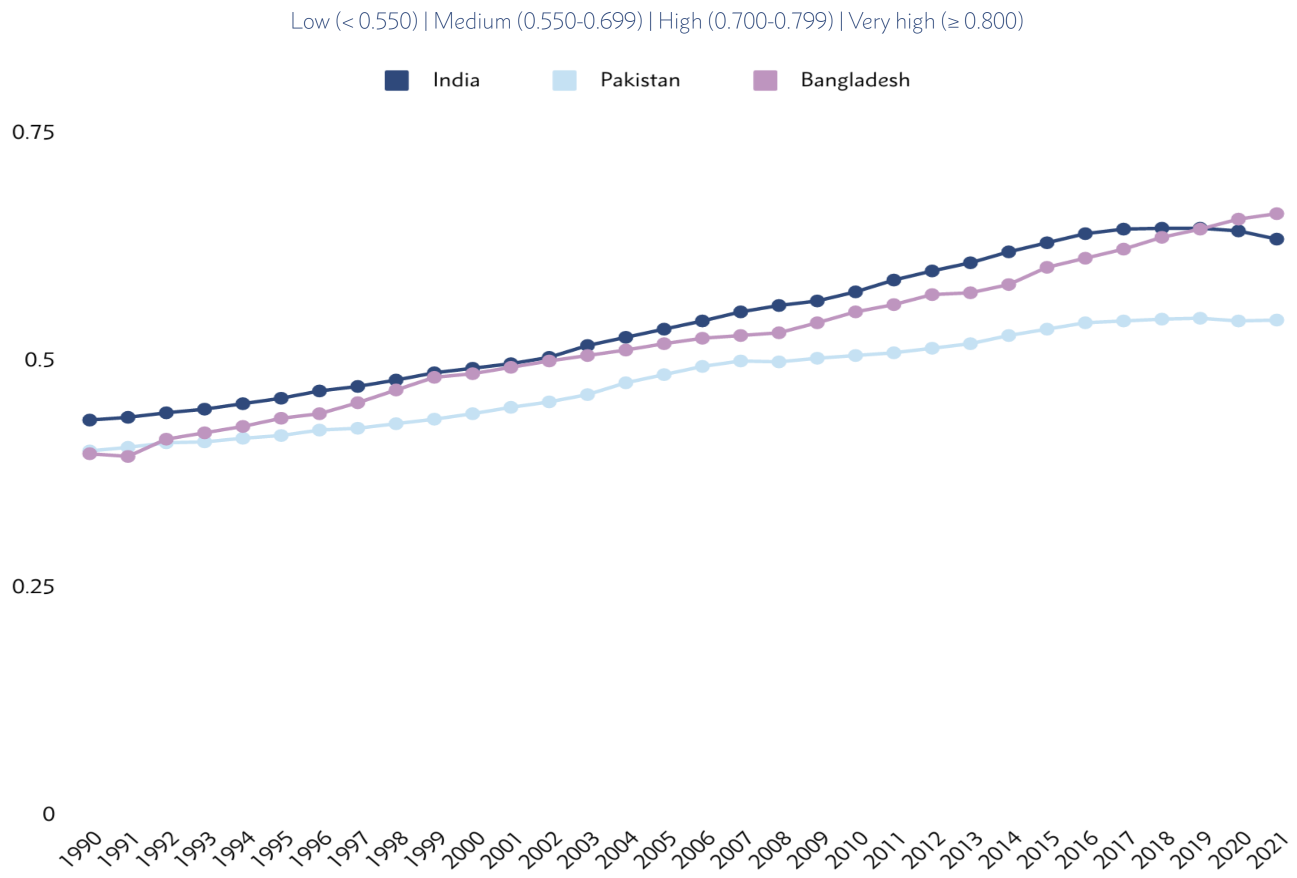


Figure 2: HDI trends for India, Pakistan, and Bangladesh, 1990-2019. Source: United Nations Development Programme, 2020

1. 2. CHALLENGES: FINANCIAL AND DEMAND PRESSURES

While India has experienced remarkable economic growth and development, significant challenges remain. According to UNDP's Multidimensional Poverty Index (which identifies multiple overlapping deprivations suffered by individuals in health, education, and standard of living), 27.9% of India's population is multidimensionally poor and 19.3% are vulnerable to multidimensional poverty. Furthermore, India's multidimensional poverty headcount is 6.7 percentage points higher than income poverty.[11] This shows that even when individuals are above the income poverty line, they may still suffer deprivations in health, education, and/or standard of living. These already daunting numbers have been further exacerbated by the COVID-19 pandemic, with different sources estimating between 150-230 million additional people falling into income poverty in 2021 and 2022.[12] India has the world's largest school-going population of 250 million students. By 2027, it is also expected to boast the world's largest workforce.[13] Addressing these challenges around education and skills development therefore lie at the heart of human capital development and socioeconomic growth for India.

Demand pressures are further exacerbated by funding constraints and the effects of COVID-19. The SDG financing gap in developing countries stood at $2-2.5 trillion per annum before the pandemic. This too has widened further due to COVID-19.[14] In India, this financing gap is estimated at $500-600 billion per year.[15] India ranks 120 out of 193 countries on the 2020 SDG Index.[16] It continues to lag on SDG goals of alleviating poverty, ending hunger, reducing inequality, and ensuring decent jobs and economic growth. There is therefore a need to galvanise significantly more capital from both public and private sectors to meet this funding requirement and to ensure that existing funding is effective in alleviating these issues by achieving positive outcomes. The SDG Investor Map Report for India 2020, a collaboration between UNDP India and Invest India, identified 18 Investment Opportunity Areas (IOAs) and eight white spaces (areas with limited private sector participation but potential for growth) across six sectors and 13 subsectors.[17] These sectors included education and healthcare, with market sizes estimated at $100 billion and $372 billion,[18] respectively.

11. *United Nations Development Programme, 2020*
12. *Indian Express + Business Standard*
13. *IBEF, 2020*
14. *The Economic Times, 2020*
15. *Brookings, 2019; Aspen Network of Development Entrepreneurs, 2020*
16. *Sustainable Development Report, 2020*
17. *UNDP and Invest India, 2020*
18. *Estimate for 2022*

1. 3. OPPORTUNITIES: NEW INVESTMENT APPROACHES AND IMPACT BONDS

While a thriving third sector exists in India, many organisations struggle to access the necessary financing. One of the responses to this challenge has been a search for new investment approaches which can support impact-focussed organisations in tackling social challenges. A broad spectrum of social investment models has therefore emerged, both globally and in India. Some prominent examples include corporate social responsibility (CSR), socially responsible investing (SRI), a focus on environment, social, and corporate governance (ESG), and impact investment.[19] Between 2010 and 2016, India attracted over $5.2 billion in impact investment, with more recent estimates from 2022 putting this number as high as $9 billion.[20] Social investment has been advocated as a basis for saving public money, transferring risk away from the public sector, correcting poor incentives, accessing new funding, and using evidence-based interventions.[21] Within this area, impact bonds emerged as a new means to leverage blended finance for greater cross-sector collaboration, innovative services, and preventative spending.

Impact bonds (IBs) were pioneered in the UK in 2010 and introduced in India in 2015. They are outcomes-based contracts that incorporate the use of private funding from investors to cover the upfront capital required for a provider to set up and deliver a service. The service is set out to achieve measurable outcomes established by the commissioning authority (or outcome payer) and the investor is repaid only if these outcomes are achieved.[22] Impact bonds encompass both social impact bonds (where central and local governments typically act as outcome payers) and development impact bonds (where outcome payers typically involve donor agencies, multilaterals, and foundations). In a recent report,[23] the Government Outcomes Lab (GO Lab) synthesised the available evidence on impact bonds in the UK. This identified three overarching logics or 'theories of change' by which IBs have the potential to overcome entrenched public service challenges. IBs attempt to do this by encouraging more collaboration across policy and delivery silos, urging prevention through early action, and fostering innovation by protecting service providers and commissioners from some degree of financial risk as well as allowing more flexibility in service delivery. IBs try and improve on more commonly applied commissioning approaches (such as in-house provision, grants to independent provider organisations, or 'fee for activity' contracting) by providing upfront capital for delivery organisations, encouraging robust measurement of outcomes, and prioritising quality and efficiency in service delivery. By paying only for achievement of pre-agreed outcomes and providing upfront capital, they attempt to transfer risk from governments (or outcomes payers) and service providers to social investors.

However, like other outcomes-based approaches, IBs have also raised eyebrows over concerns of creaming (focusing on service users easiest to work with) and parking (abandoning service users who are further away from targeted outcomes).[24] Stakeholders might work selectively to maximise the probability of outcomes being achieved, so that associated outcome payments can be made. Or else, the target population might be poorly specified by the outcome payer, creating space for opportunistic behaviour driven by perverse incentives. This highlights the need for stronger capabilities among outcome payers, beyond performance management. While there is an increased focus on data collection and tracking, this introduces additional demands through greater performance management.[25] In addition, these projects are expensive and resource intensive to set-up.[26] Development timelines usually extend over several years and feature complex contractual negotiations.[27] Some view IBs as the financialisaton and commodification of social services.[28]

Many point out that the use of IBs is intrinsically difficult because of the clash in norms between financial actors, governments, and service delivery organisations.[29]

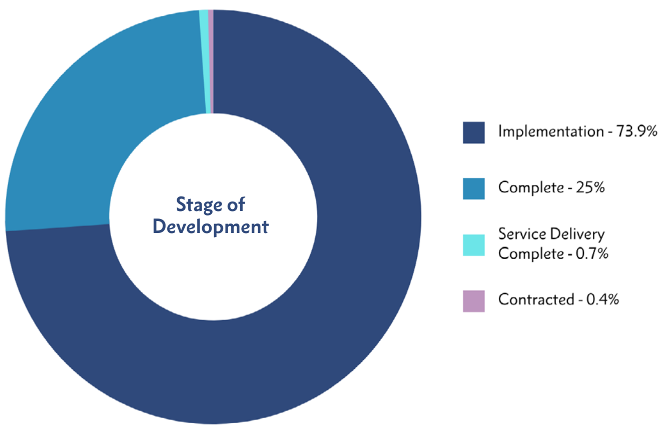
With most impact bonds globally still in implementation, there continues to be curiosity around their potential as stakeholders experiment with them in countries around the world. To date, 275 impact bonds have been launched across 38 countries. Collectively, these projects have raised over $741 million in investment commitments and aim to engage more than 1.7 million service users.[30] India is one of the leading lower- and middle-income countries (LMICs) to experiment with impact bonds. It has launched four impact bonds to date, with more than $10 million investment committed and more than 360,000 service users anticipated to be engaged.[31] These impact bonds focus on improving education, healthcare, and employment. In doing so, they employ cross-sector collaborations and funding from donor and multilateral organisations. A pipeline of new impact bonds is in development, alongside other projects within the wider outcomes-based financing space.

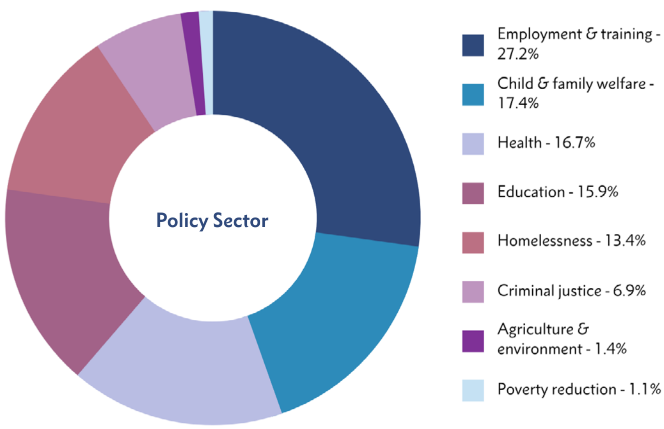
Figure 3 below visualises these investments in comparisons with global figures, as well as selected countries: the UK (pioneering and leading country to launch impact bonds) and Colombia (leading LMIC alongside India to launch impact bonds).[32]

19. Brookings, 2019
20. Brookings, 2019 + Forbes India
21. Mulgan et al, 2011
22. Government Outcomes Lab, 2021
23. Carter et al, 2018
24. OECD, 2016
25. Ronicle et al, 2019
26. OECD, 2016
27. Policy Innovation and Evaluation Research Unit, 2015
28. OECD, 2015
29. Fraser et al, 2018
30. Government Outcomes Lab, 2022
31. Government Outcomes Lab, 2022

Globally, most impact bonds (204) are still in implementation. Projects which have completed delivery (68), continue to publish limited data in the public domain and often lack rigorous impact evaluation, making it difficult to assess their success against targeted outcomes and value for money. Employment and training account for the highest share of impact bonds (27%), followed by child and family welfare (17.5%), and health (17%). Having pioneered the tool in 2010, the UK continues to host the most impact bonds in the world (93), with more than $106 million committed as investment, with aims to engage with more than 116,000 service users. However, the average number of service users targeted in the UK can be quite small (1,579 service users per project) when compared to projects in India (120,000), with some projects working with closely specified cohorts of just 13 or 30 individuals. Average investment commitments are also generally smaller. Dominant policy areas (employment and training, homelessness, and child and family welfare) suggest a different focus from India and many other LMICs, which often focus on education and health instead. These differences imply differences in policy objectives, demographic considerations, and areas of prioritisation. For example, many of the IBs in UK focus on delivering highly tailored support to specific cohorts in urban yet deprived settings, rather than scaling up selected interventions to large sections of the population. Meanwhile, Colombia (3 projects) hosts a similar number of IBs as India (4 projects) but these are exclusively within employment and training, and smaller in both targeted service users (601) and investment commitments ($2 million). Unlike India, all three projects have been launched as social impact bonds and therefore involve considerable engagement from Colombian government.

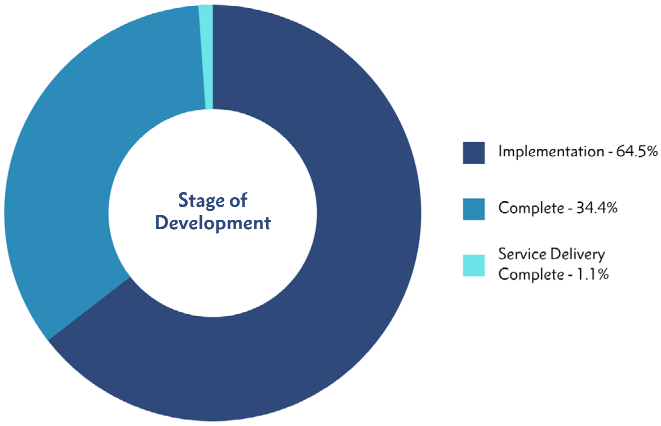
World

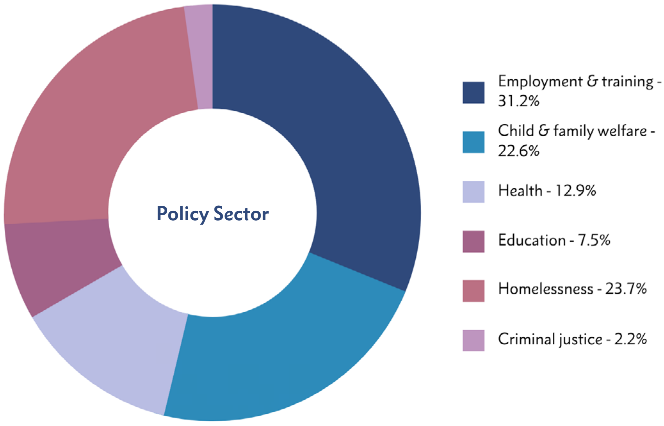




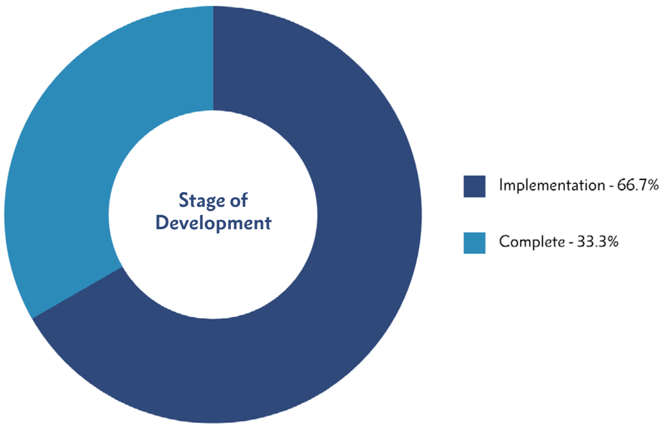
32. As of February 2023

United Kingdom





Colombia



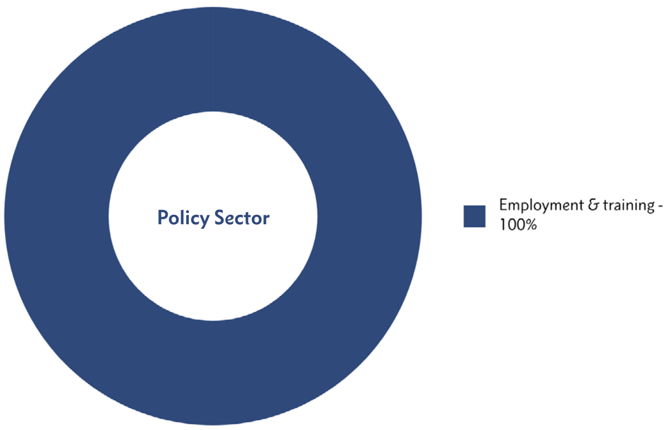


Figure 3: Impact bonds statistics for the world, the UK, and Colombia in February 2022. Source: Government Outcomes Lab, 2022

1. 4. AIM OF STUDY

India's experience with impact bonds is a unique learning opportunity. Not only does it provide lessons on how best to adapt outcomes-based financing tools, including impact bonds over time, but it also sheds light on the practical implementation of these tools in a LMIC context.

Government Outcomes Lab (GO Lab) and British Asian Trust (BAT) aim to capture these insights within a case study, to inform best practice in the field and assist the consideration of future directions.

This empirical case illustrates emergent and innovative practice in cross-sector partnerships to coordinate and respond at scale to support education, healthcare, and employment. Insights from the research have been analysed and compiled as a report by the Government Outcomes Lab (GO Lab), in collaboration with the British Asian Trust. A roundtable session at the Social Outcomes Conference 2021, organised by the GO Lab, built on the emerging findings from this report and contributed additional insights.

The case study aims to explore three main themes:

1. **State-of-play and evolution of OBF tools in India** *(Section II)*
   The study's first theme provides an overview of project level information and visualisations on the projects that have been launched in India. The section also includes analysis on how OBF tools, especially impact bonds, have evolved over time in India. Project data has been re-verified with key stakeholders before analysis and publication.

2. **Learnings from the development and implementation of impact bonds in India** *(Section III)*
   The study's second theme captures insights from key stakeholders involved in the projects. Drawing on a qualitative survey, detailed semi-structured interviews, and a roundtable session, it focuses on their learnings from developing and implementing OBF tools in India. Stakeholders also described the justifications for using an impact bond, design considerations, facilitators, and challenges encountered.

3. **Future directions – scaling and sustainability of impact in India and LMICs** *(Section IV)*
   The study's third and final theme builds on key stakeholders' insights to explore the future of OBF tools and impact bonds in India. It investigates stakeholders' views on using OBF tools and impact bonds to sustain and scale up impact in a LMIC context. The analysis expands on how stakeholders' learnings can be fed into wider policy and practice.

1. 5. METHODS AND SAMPLING

The study uses qualitative methods to investigate detailed insights from key stakeholders (outlined in *Figure 4*) within outcomes-based financing in India. It combines these with documentary analysis and descriptive statistics based on project-level data, to illustrate the landscape of OBF tools and impact bonds in India. It also considers key learnings (including facilitators and challenges) and future directions (including scaling and sustainability of impact).

Primary research was conducted over July to September 2021 through an online Qualtrics survey and virtual semi-structured interviews, where participants were invited to discuss learnings from the development and implementation of these cross-sector partnerships. The survey included both multiple-choice questions and open text fields. A list of key institutions and their representatives was drawn up. Participants were recruited by the research team via purposive sampling, based on contacts held by the British Asian Trust and the GO Lab. Insights were also included from a roundtable session held as part of the Social Outcomes Conference 2021, co-hosted by the GO Lab and the British Asian Trust.

A total of 36 survey responses were received, 14 of which were complete and were included in the analysis that follows. A breakdown of the participants' roles is provided in *Figure 4* below, identified by the participants themselves. Some participants were involved across different projects in multiple roles and therefore chose to identify themselves within multiple categories (as presented below).

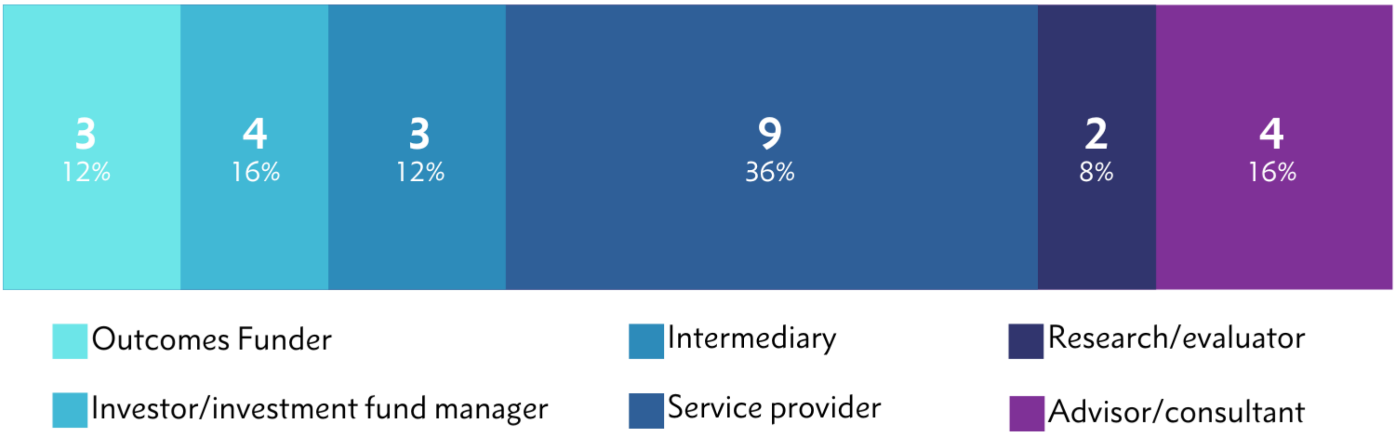


Figure 4: Survey participants, breakdown by role in past and current projects (self-identified). Source: Government Outcomes Lab survey

GO Lab also conducted in-depth semi-structured interviews with 14 individuals across 12 key organisations within the OBF space in India. This included representatives from a mix of outcome funders, intermediaries, social investors, service providers, researchers, and public sector organisations. Insights from these interviews inform the bulk of the analysis but are triangulated with survey responses and insights from the roundtable session. Given the relatively small number of stakeholders in the Indian market, there is some overlap between individuals participating in the survey, interviews, and the roundtable session.

This study has been reviewed by, and received ethics clearance through, the University of Oxford Central University Research Ethics Committee (Reference number: SSH/BSG_C1A-21-17)

2. LANDSCAPE OF OUTCOMES-BASED FINANCING IN INDIA

In response to the demand and financial pressures discussed in Section I, outcomes-based financing has emerged as a potential contributing solution, with India launching four impact bonds to date, with more than $10 million raised as capital and more than 360,000 service users anticipated to be engaged.[33] Two of these have completed service delivery, while the other two are in implementation. Two more OBF tools (a social success note and a pay-for-success tool) have also completed implementation. While the funding involved in is still a small proportion of the overall SDG funding gap, India's journey since its first impact has shown that it can move at pace to scale initiatives.

In India, these tools are anticipated to introduce more efficiency and accountability in development spending, as well as longer term and more flexible funding. It is theorised that greater focus on outcomes will generate strong cross-sector collaborations and help build long-term trusting relationships between stakeholders. Furthermore, many expect that a stronger outcomes orientation could also aid better impact tracking through robust performance and data management.

2.1. TIMELINE OF OUTCOMES-BASED FINANCING IN INDIA

Several different outcomes-based financing instruments have been developed in India since 2015. *Figure 5* below illustrates six prominent examples, including projects using impact bonds, social success notes, and pay-for-success models. These are discussed in the sections that follow.

2.1.1. IMPACT BONDS

Educate Girls
The Educate Girls Development Impact Bond, the first DIB in the world, was launched in India in 2015. Community volunteers were trained to make door-to-door household visits to encourage enrolment and attendance and to deliver adapted curriculum in classrooms to improve basic reading and math skills. The risk investors, UBS Optimus Foundation, invested $2,92,897 in the project, with $4,22,000 paid by Children's Investment Fund Foundation (CIFF) as outcomes payments.[34] An impact evaluation by IDinsight found that the DIB exceeded its targets for both learning gains and enrolment. Students in treatment villages gained an additional 8,940 ASER (Annual Status of Education Report) learning levels compared to students in control villages, which represented 160% of the final target[35] (*Figure 6*). The programme was particularly effective in its third year of service delivery, with the largest learnings gains materialising in this final year. By the end of year 3, 92% of all 837 eligible out-of-school girls in treatment villages had been successfully enrolled, which

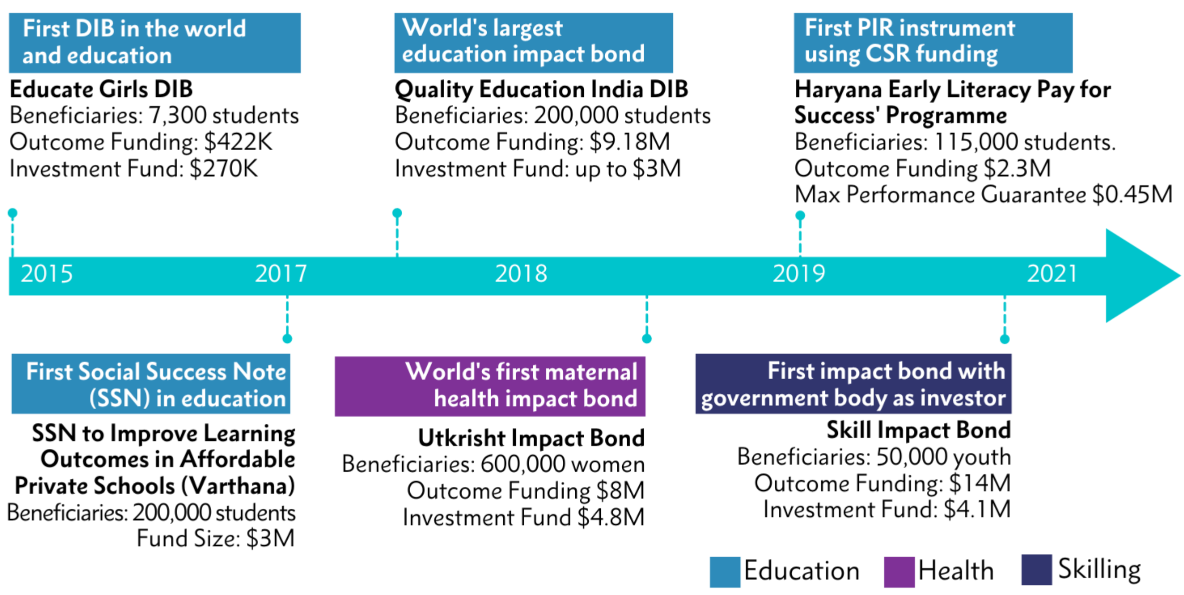


Figure 5:Timeline of outcomes-based financing tools in India. Source: British Asian Trust and Government Outcomes Lab, 2022

33. Government Outcomes Lab, 2022
34. IDinsight, 2018
35. IDinsight, 2018

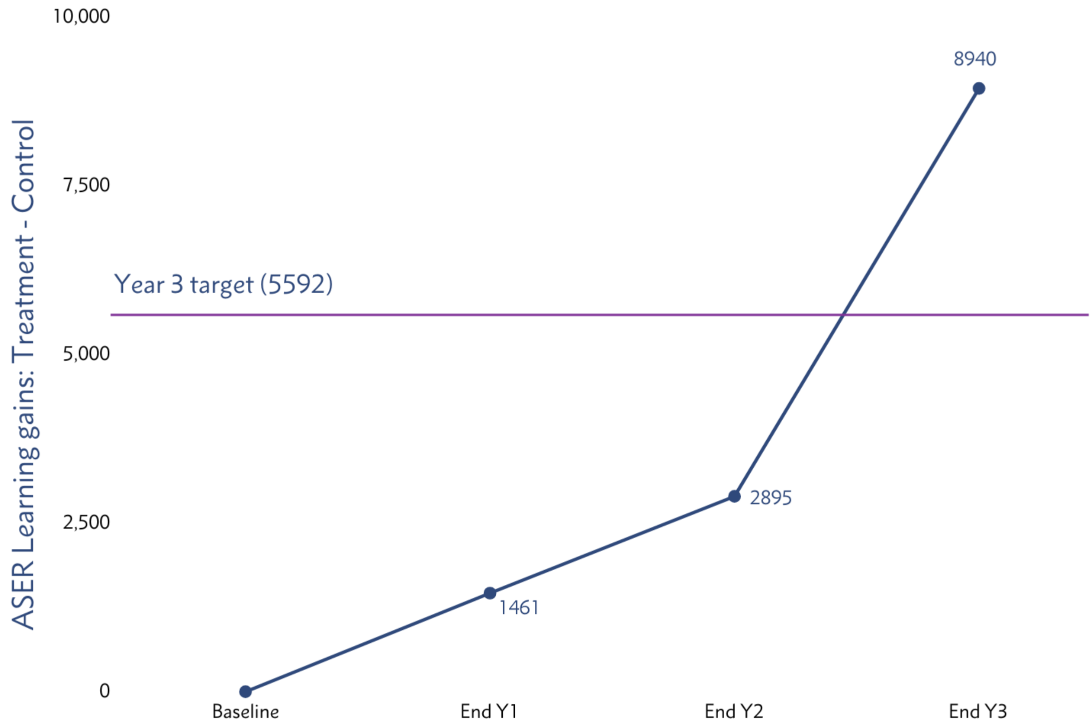


Figure 6: Aggregate learning gains (treatment-control) by year. Source: IDinsight, 2018

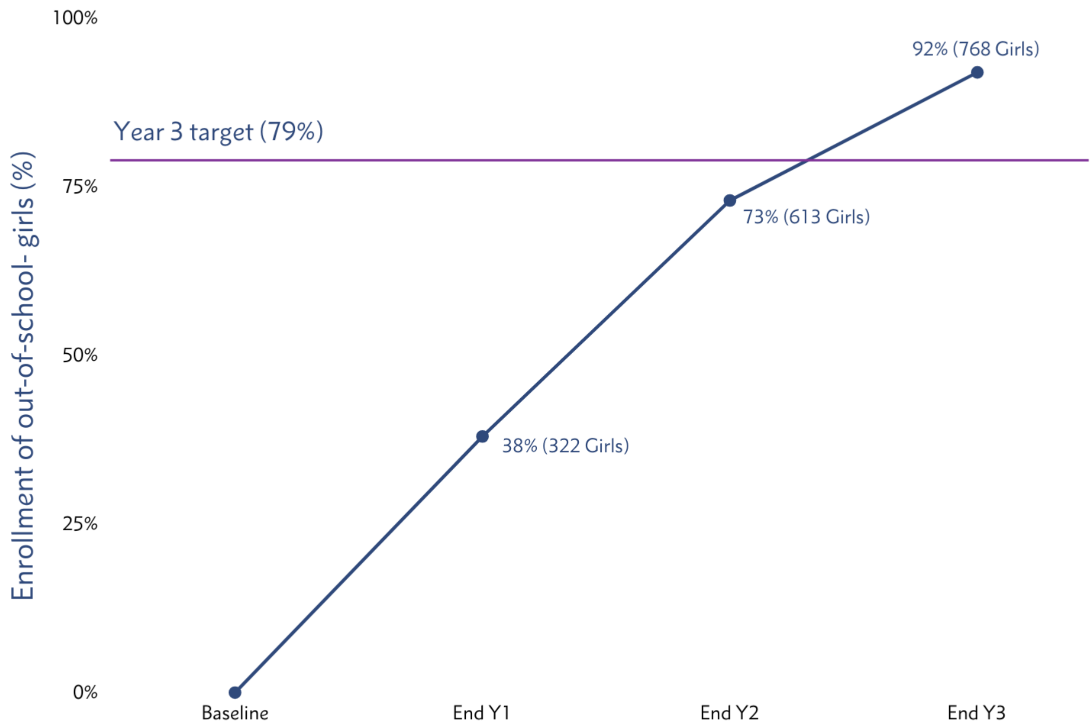


Figure 7: Enrolments of out-of-school girls by year. Source: IDinsight, 2018

represented 116% of the final target[36] (*Figure 7*). Besides exceeding its original targets, Educate Girls showed the power of the DIB's outcomes orientation to stimulate innovation. Flexibility for the service provider combined with rigorous evaluation led to rapid learning and improvements within the project, leading to a substantial increase in effectiveness during its final year of implementation. Rigorous data monitoring and evaluation helped to both establish the added value of the project, and provide accurate data on where to adjust and adapt within the project.

Following the success of Educate Girls, two more impact bonds were launched in 2018 – the Quality Education India (QEI) Development Impact Bond and the Utkrisht Development Impact Bond. The projects were focussed on education and maternal health, respectively.

Quality Education India (QEI) Development impact Bond
QEI is the world's largest impact bond within the education sector. Working across Delhi, Gujarat, Maharashtra, and Uttar Pradesh, it aimed to improve learning outcomes in language and math for 2,00,000 primary school children studying in government and low-fee private schools. An investment of up to $3 million was made over the four years of project delivery, followed by outcomes payments of up to $9.18 million – conditional on achievement of outcomes. *Figure 8* below shows the key stakeholders involved in QEI.[37]

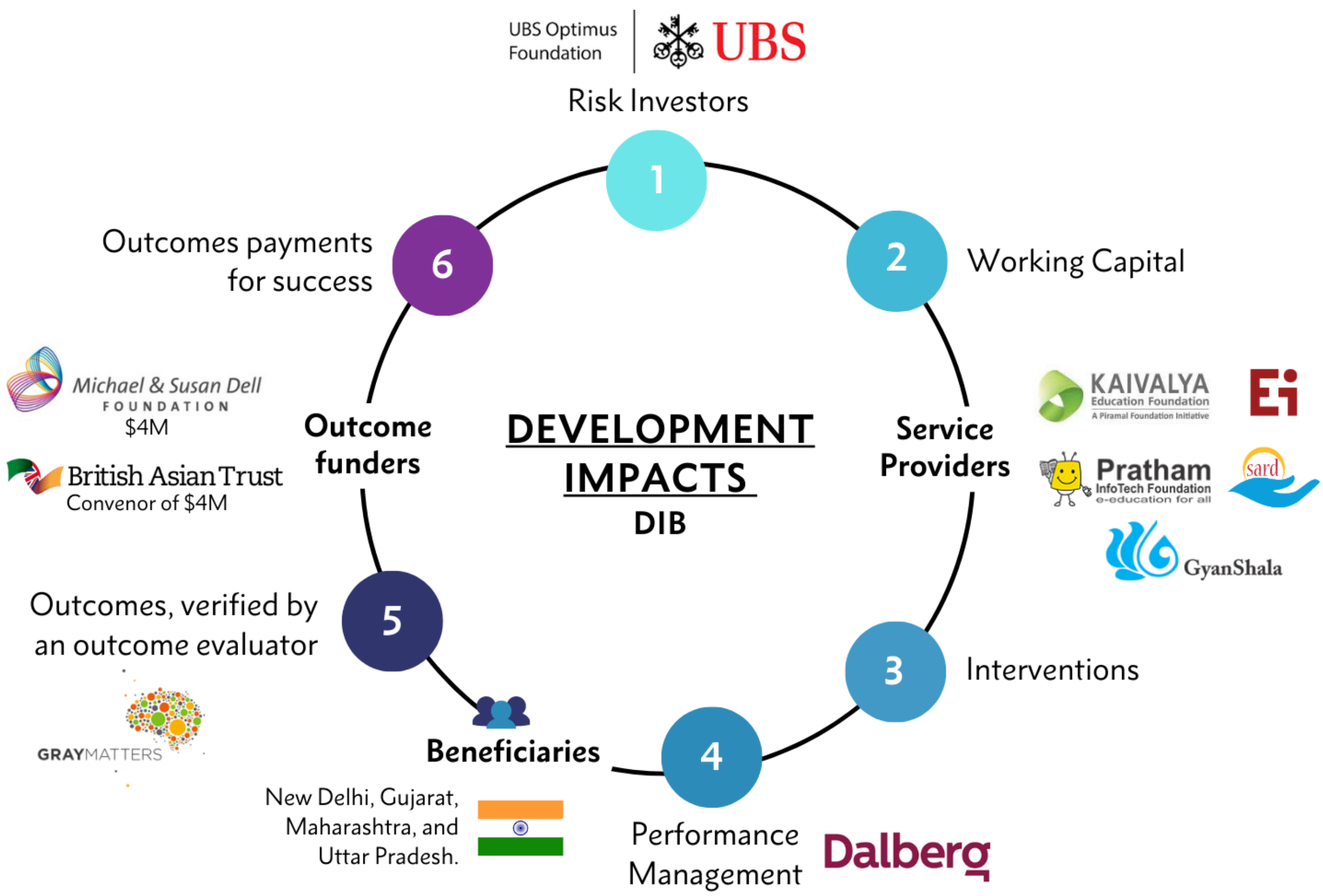


Figure 8: Key stakeholders in QEI DIB. Source: Ecorys, 2019

The project employed multiple interventions, including teacher training, leadership programmes for school principals, standalone schools in disadvantaged areas, and technology-based learning solutions. The bond exceeded its outcome targets over the four years and closed the learning gap many other students saw during the pandemic, demonstrating the potential to transform the quality of education at scale. Students in the programme learned 2.5 times more than those in non-participating schools. Despite the challenges of COVID-19, students continued to show learning gains in the programme. Twice as many students achieved age-appropriate learning levels compared to non-participating schools. Personalised and Adaptive Learning through technology showed 5x the learning gains for students. The DIB has helped scale the learnings and successes from the Educate Girls DIB, and helped stakeholders explore the possibility of greater government engagement in outcomes-based approaches.

36. IDinsight, 2018
37. Ecorys, 2019

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Utkrisht Impact Bond

The Utkrisht Impact Bond is the world's first impact bond to focus on maternal and neonatal health. It aimed to reach over 10,000 pregnant women and new-born children in Rajasthan and provide them improved care over a three-year period. By improving the quality of private healthcare facilities and ensuring readiness for certification, the DIB hopes to reduce maternal and neonatal mortality. Figure 9 below illustrates the partners involved in this collaboration and their respective roles.[39] To measure quality improvement, two existing sets of quality standards are used: the small health care organisation (SHCO) pre-entry certification standards promoted by the National Accreditation Board for Hospitals and Healthcare Providers (NABH) and Manyata certifications for safe delivery adopted by the Federation of Obstetric and Gynaecological Societies of India (FOGSI). The project is still in implementation, and it is too early to say whether improved quality at participating SHCOs has led to meaningful improvements in health outcomes. However, a midline report by Mathematica suggests technical assistance provided within the DIB led to improvements in quality with some associations (though statistically insignificant) between meeting certification level and improved care.

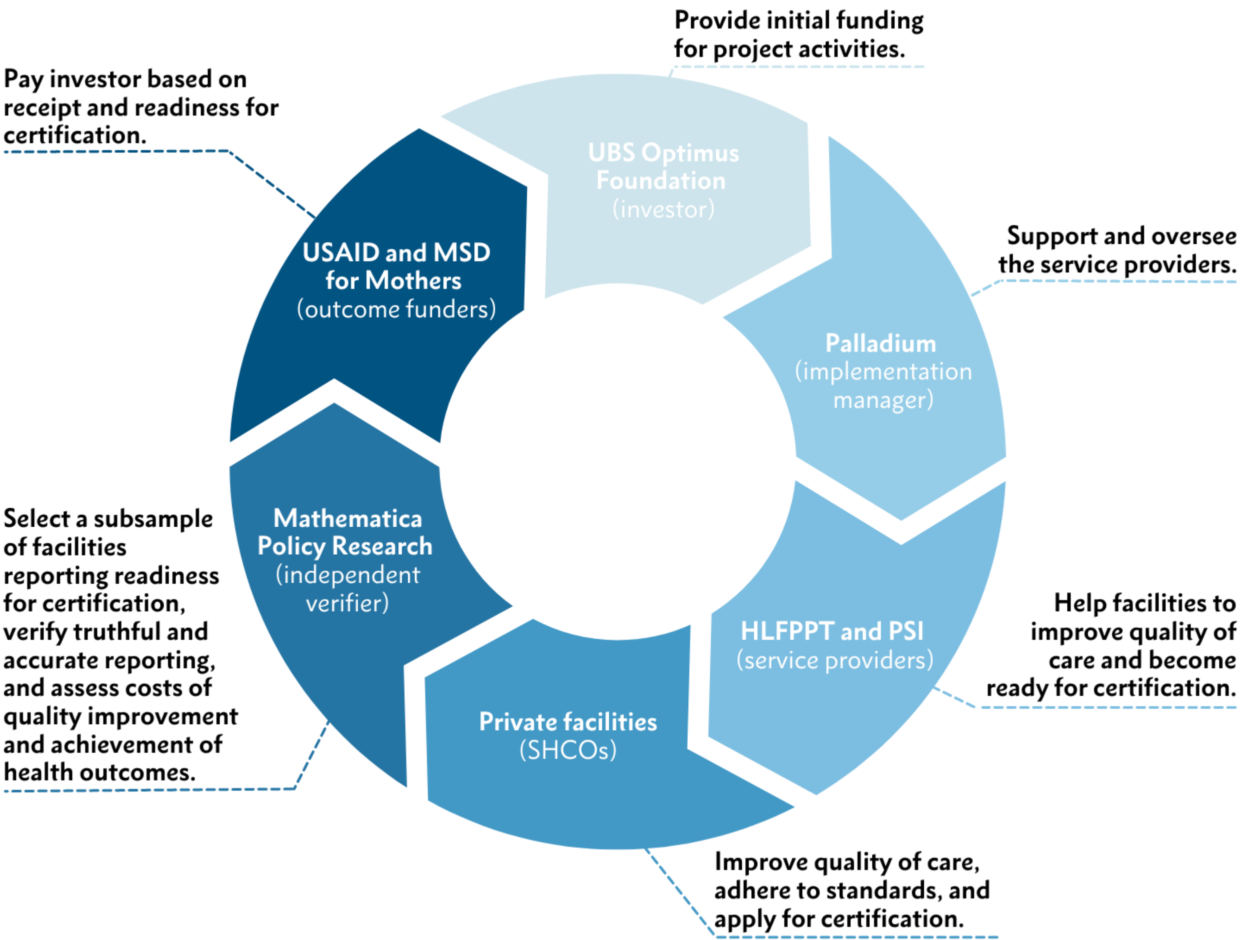

Figure 9: Utkrisht DIB partners and roles. Source: Mathematica, 2020

38. Quality Education India - Development Impact Bond
39. Mathematica, 2020

Skill Impact Bond (SIB)
Launched in October 2021, the Skill Impact Bond (SIB) is the latest impact bond to be launched in India. The project aims to improve the quality and efficiency within the Indian skilling ecosystem by shifting focus from outputs to outcomes, particularly within COVID-19 recovery sectors such as retail, apparel, healthcare, and logistics. It targets improved job placements and job retention for approximately 50,000 beneficiaries (approximately 60% of whom will be women and girls), with a focus on supporting young people into long-term employment.[40] Simultaneously, the project is expected to achieve better operational efficiency and cost efficiency for service providers (Learnet, Gram Tarang, PanIIT Alumni Reach for India Foundation [PARFI], Tata Strive, and Magic Bus). The Michael & Susan Dell Foundation (MSDF) and the National Skill Development Corporation (NSDC) have committed up to $4 million in investment. There are four outcome funders involved (The Children's Investment Fund Foundation [CIFF], JSW Foundation, HSBC, and Dubai Cares), with a maximum outcome payment commitment of $14.4 million.[41] The British Asian Trust acts as the transaction manager. Technical partners include USAID, The Foreign, Commonwealth & Development Office (FCDO), and Dalberg Advisors, while Nishith Desai Associates (NDA) and McDermott, Willis & Emory (MWE) act as the legal partners. The Skill Impact Bond (SIB) is expected to run for four years.

Evolution of key stakeholders' network within impact bond market in India Figure 10 below summarises key players involved in the impact bond space in India. These are classified by their role in projects (outcome funders, investors, service providers, and technical partners) as well as the phase in which they joined the market (either acting as early adopters or contributing to market growth). The continued involvement of new players is an encouraging sign that the market is growing.

Meanwhile, Figure 11, Figure 12 and Figure 13 below represent network diagrams for stakeholders involved over time. These figures show how these networks have evolved between 2015 and 2021 and suggest that the market is consolidating. Since the launch of the first impact bond in India, several organisations have been involved in more than one project. For instance, UBS Optimus Foundation invested in three projects: Educate Girls, Utkrisht Impact Bond, and Quality Education India. The Children's Investment Fund Foundation has paid for outcomes in two projects: Educate Girls and Skill Impact Bond. Furthermore, some organisations have taken different roles in different projects. USAID has been an outcomes payer for the Utkrisht Impact Bond and a technical partner for Skill Impact Bond. And the Michael & Susan Dell Foundation has been an outcomes payer for Quality Education India DIB and an investor for Skill Impact Bond.

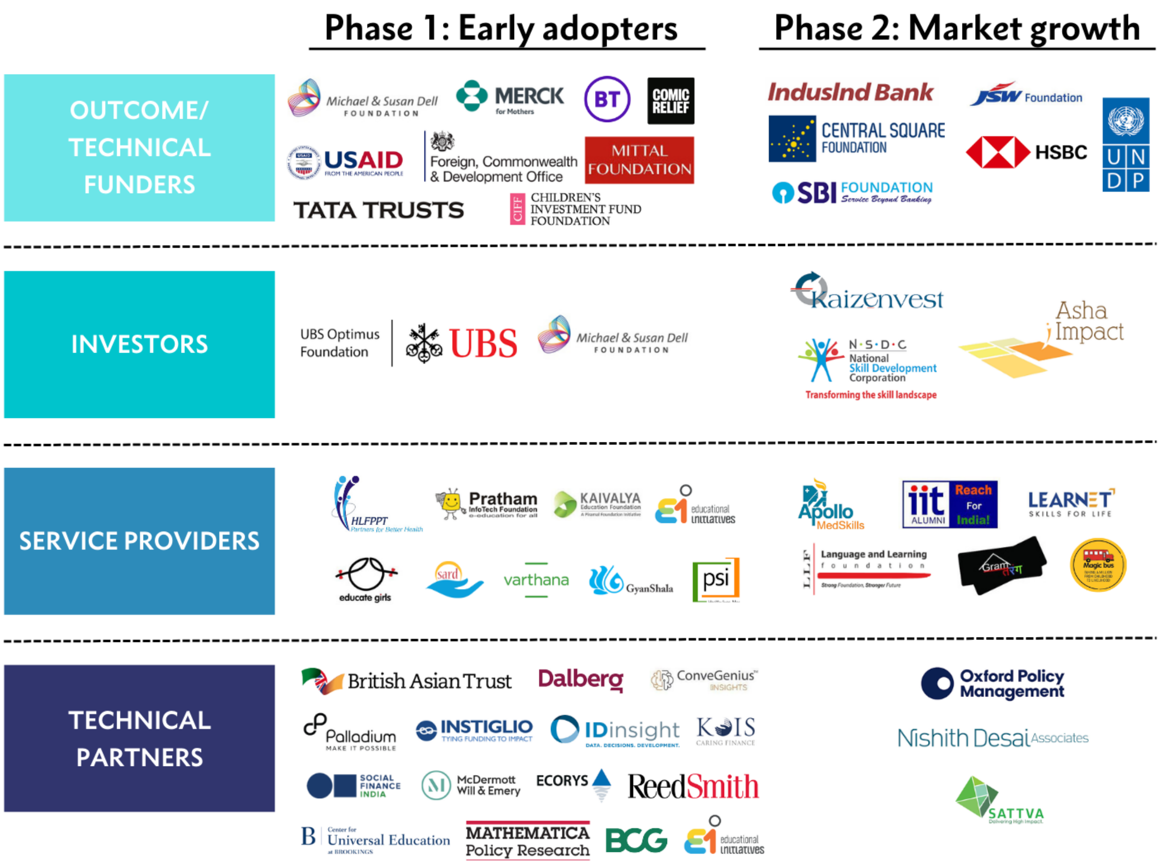

Figure 10: Key players in the Indian outcomes-based financing market. Source: British Asian Trust, 2021

40. *British Asian Trust, 2021*
41. *National Skill Development Corporation, 2021*

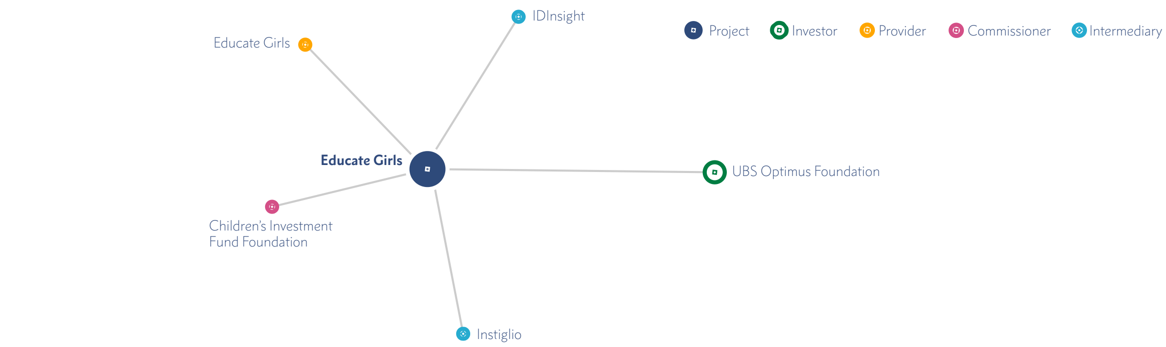

Figure 11: Network diagram of key stakeholders in India in 2015. Source: Government Outcomes Lab, 2022

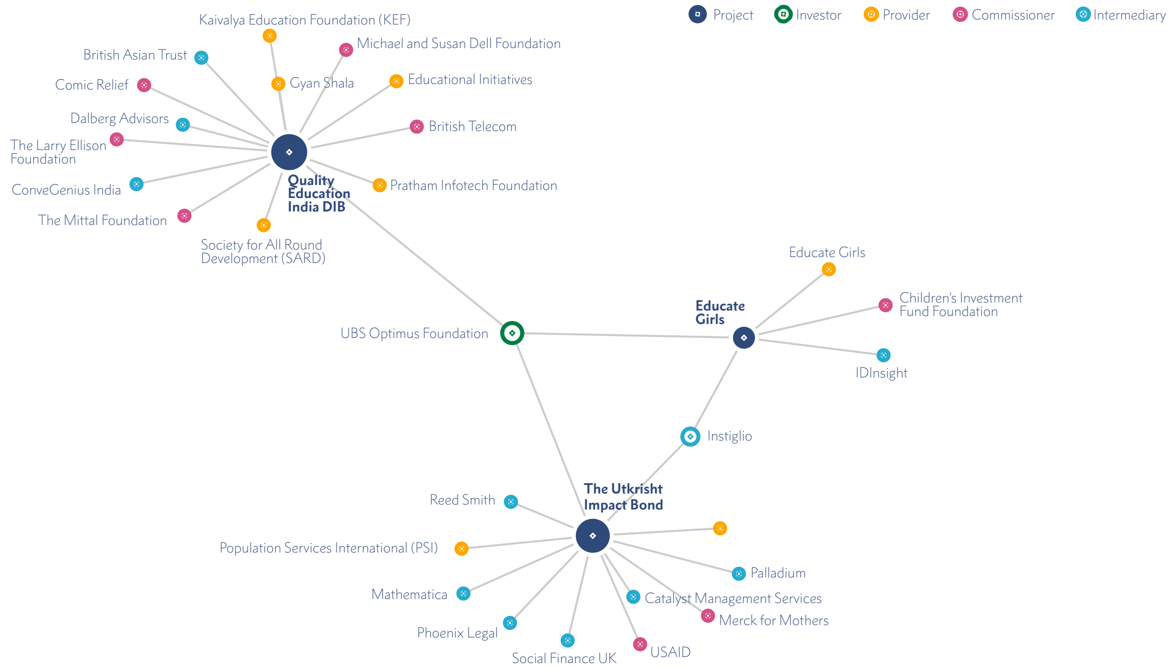

Figure 12: Network diagram of key stakeholders in India in 2018. Source: Government Outcomes Lab, 2022

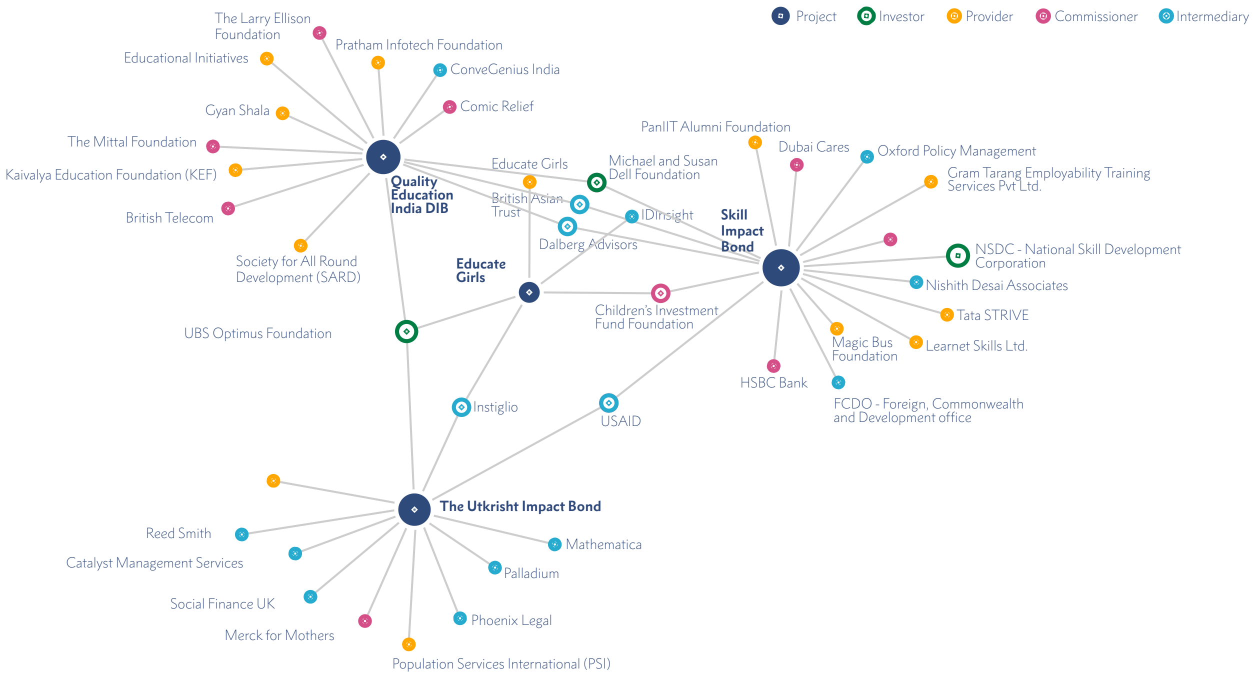

Figure 13: Network diagram of key stakeholders in India in 2021. Source: Government Outcomes Lab, 2022

2.1.2. SOCIAL SUCCESS NOTES

Besides impact bonds, other forms of outcomes-based financing have also been trialled in India. For example, social success notes (SSNs) are a pay for success tool that bridge the financing gap by providing low-cost capital for small impact-driven businesses.[42] SSNs are useful for supporting for-profit businesses which have the capacity to service debt but are unable to afford the high interest rates typically charged by commercial lenders. This use of impact-linked debt can enable social enterprise to scale up their work. Outcome payments are typically lower than in other pay-for-success instruments such as impact bonds. However, SSNs might be less suitable for non-profit organisations that lack capacity to repay loans and depend on grants instead, or where the intervention's impact is yet to be proven. For such organisations, impact bonds might be more suitable tools to access financing. *Figure 14* below expands on some of the key differences between SSNs and DIBs.

DEVELOPMENT IMPACT BONDS		SOCIAL SUCCESS NOTES
Outcome payer, investor, implementation partner (generally non-profit organisation), M&E partner	Key Players	Outcome payer, investor, implementation partner (e.g. for- profit SGB), M&E partner
Grant to implementing organisation to achieve results	Structure	Low-cost debt to implementing organisation to achieve results
Outcome payer pays investors the principal amount and interest thereon if targets are achieved	Who Pays Whom*	Social enterprise repays loans to the investor, and outcome payer offers incentives to investor if targets are met
Principal plus interest is paid to investor if outcomes are achieved	Outcome Payer's Contribution*	Incentives are paid to investors if outcomes are achieved
Outcomes	Criteria for Payment by Outcome Payer	Outcomes

**Payments to the social enterprise are optional and can further reduce their burden of debt*

Figure 14: Comparison of development impact bonds and social success notes. Source: Aspen Network of Development Entrepreneurs, 2020

Students at affordable private schools (APSs) in India continue to underperform and have poor learning outcomes. In 2015, a social success note was designed to improve learning outcomes within these schools. A variable-rate loan was provided to Indian School Finance Company (ISFC), which allowed it to enrol 98 schools into a programme which guaranteed rewards to schools that could demonstrate measurable improvement in their students' learning outcomes. Building on their involvement with the pilot, Michael & Susan Dell Foundation (MSDF) co-designed the instrument and provided a loan to Varthana (a non-banking finance company). Varthana further mobilised smaller loans to 337 schools across 11 Indian cities. Participating schools were required to sign up to the School Transformation Programme (STP), which follows an 'assess-design-measure' framework which allows teachers to customise lesson plans based on student feedback. As the outcomes funder, MSDF will incentivise Varthana and participating schools if learning outcomes improve for students in grades 3, 5, and 7. Gray Matters India (since renamed to CGI – Convegenius Insights) monitored and assessed the results, which are yet to be published. *Figure 15* below shows the structure and funds flow within the SSN.

42. *Aspen Network of Development Entrepreneurs, 2020*

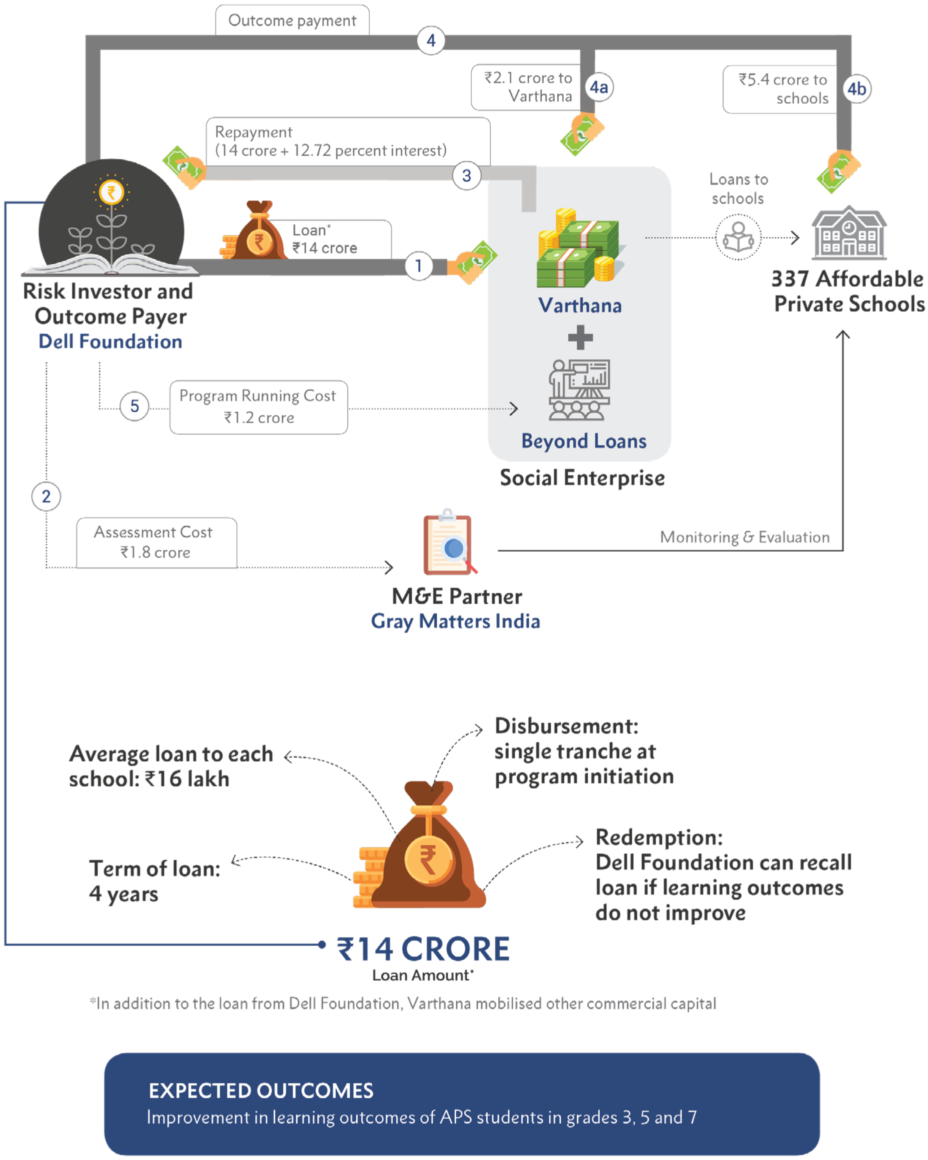

Figure 15: Structure of Social Success Note in India, focussed on improving learning outcomes for affordable private schools (APSs). Source: Aspen Network of Development Entrepreneurs, 2020

2.1.3. OTHER OUTCOMES-BASED FINANCING INSTRUMENTS IN INDIA

Besides impact bonds and social success notes, other outcomes-based approaches have also been trialled in India. Some prominent examples are discussed below:

2.1.3.1. PRADHAN MANTRI KAUSHAL VIKAS YOJANA (PMKVY)

In 2015, the Indian Ministry of Skill Development and Entrepreneurship (MSDE) launched the Pradhan Mantri Kaushal Vikas Yojana (PMKVY), an outcomes-based programme aimed at providing skills training to young people.[43] Following the success of the first year, the scheme was extended for another four years until 2020 and aimed to upskill 10 million young Indians.

Instead of inputs or activities, training centres were paid on outcomes achieved. An initial 30% of the payment was based on starting training for a cohort of eligible individuals. Another tranche (50% of the payment) followed upon successful certification of participants, while the final 20% of the payment was based on successful job placements.[44] Building on the success of PMKVY, NITI Aayog (the public policy think tank within the Indian government) launched the Aspirational District Programme (ADP) which also incentivised states based on outcomes. Strong data collection and monitoring

43. PMKVY, 2021
44. PMKVY, 2021
45. PMKVY, 2021

systems were set up to monitor progress. Collaboration between different levels of regional and local government was encouraged and facilitated focus around similar outcomes. As these projects were set up at the same time as impact bonds were being set up in India, they collectively contributed to building the outcomes-based financing ecosystem in the country.

According to the PMKVY dashboard, the scheme reports to have enrolled 13,900,722 candidates, trained 13,248,218 candidates, and certified 10,549,079 candidates as of November 1st, 2021.[45]

2.1.3.2. WORLD BANK PROGRAMMES – SANKALP AND STRIVE

In 2018, two outcomes-focused programmes were launched by the World Bank in India – the Skills Acquisition and Knowledge Awareness for Likelihood Promotion (SANKALP) and Skill Strengthening for Industrial Value Enhancement (STRIVE). Both projects are in implementation and therefore have not published final results.

SANKALP is a programme run by MSDE through a $500 million loan from the World Bank, as part of a results-based finance framework. The programme is also funded by state governments ($100 million) and the private sector ($75 million).[46] Outcomes are measured across three key result areas – institutional strengthening a central, state, and district level; quality assurance of skill development programmes; and inclusion of marginalised population in skill development programmes.[47] These outcomes are then verified through eight disbursement-linked indicators (DLIs), pre-agreed between MSDE and World Bank. SANKALP is currently in implementation, with services expected to continue until March 2023.

STRIVE[48] aims to improve access to quality and market-driven vocational training provided in Industrial Training Institutes (ITIs) and apprenticeships. By extension, it also hopes to increase state capacity in supporting ITIs, improve teaching and learning, and broaden Apprenticeship Training. Implemented by MSDE, the programme ran until November 2022 and is backed by World Bank funding of $125 million to the Indian Ministry of Finance. During its five years of implementation, the programme aimed to support vocational training in 300 ITIs and 100 industrial clusters and improve state systems in all ITIs across India.[49]

2.1.3.3. HARYANA EARLY LITERACY PAY FOR SUCCESS PROGRAMME

Launched in July 2019, the Haryana Early Literacy project aims to improve language learning for 115,000 students in class I and II, across 3,300 governments schools.[50] Based in seven districts across Haryana, the project is a partnership between Haryana School Shiksha Pariyojna Parishad (HSSPP), the Language and Learning Foundation (LLF), IndusInd Bank, and SBI Capital Markets. Success is measured through improvement in children's learning outcomes. The project uses corporate social responsibility (CSR) funding in an innovative way, by paying only for outcomes instead of inputs or activities. The performance or impact guarantee for the project has been underwritten by Central Square Foundation, which will cover up to 20% in payments in case of underachievement of outcomes. The design and structuring of the project was led by Social Finance India, while the outcomes will be assessed by Educational Initiatives. At the end of the three-year project (2019-2022), children in intervention schools could fluently read at 42.4 words per minute (which meets the Global Minimum Proficiency standards), while children in non-intervention schools could read only 30.3 words per minute.[51]

46. Indian Ministry of Skill Development and Entrepreneurship, 2021
47. Indian Ministry of Skill Development and Entrepreneurship, 2021
48. World Bank, 2021
49. World Bank, 2017
50. Social Finance India, 2020
51. Business Standard

3. LEARNINGS FROM OUTCOMES-BASED FINANCING IN INDIA

This section captures key learnings from stakeholders involved in developing and implementing outcomes-based financing projects in India. Stakeholders also described their key drivers and justifications for using an impact bond, design considerations, as well as facilitators and challenges encountered.

3.1. DRIVERS AND RATIONALES FOR USING OUTCOMES-BASED MODELS

Investigating what motivates stakeholders to experiment with a new tool is crucial in beginning to understand its perceived usefulness. Therefore, a key aim for this report was to investigate the drivers or rationale for using impact bonds and outcomes-based financing to structure projects. We were keen to understand research participants' expectations in getting involved with these projects (often for the first time) and explored this question both through our survey and semi-structured interviews. Figure 18 below summarises survey participants' responses, including all the statements they chose as "strong reasons" for using outcomes-based financing. These are explained below, and corroborate the key advantages highlighted by survey respondents for using OBF over traditional tools (illustrated in Figure 19).

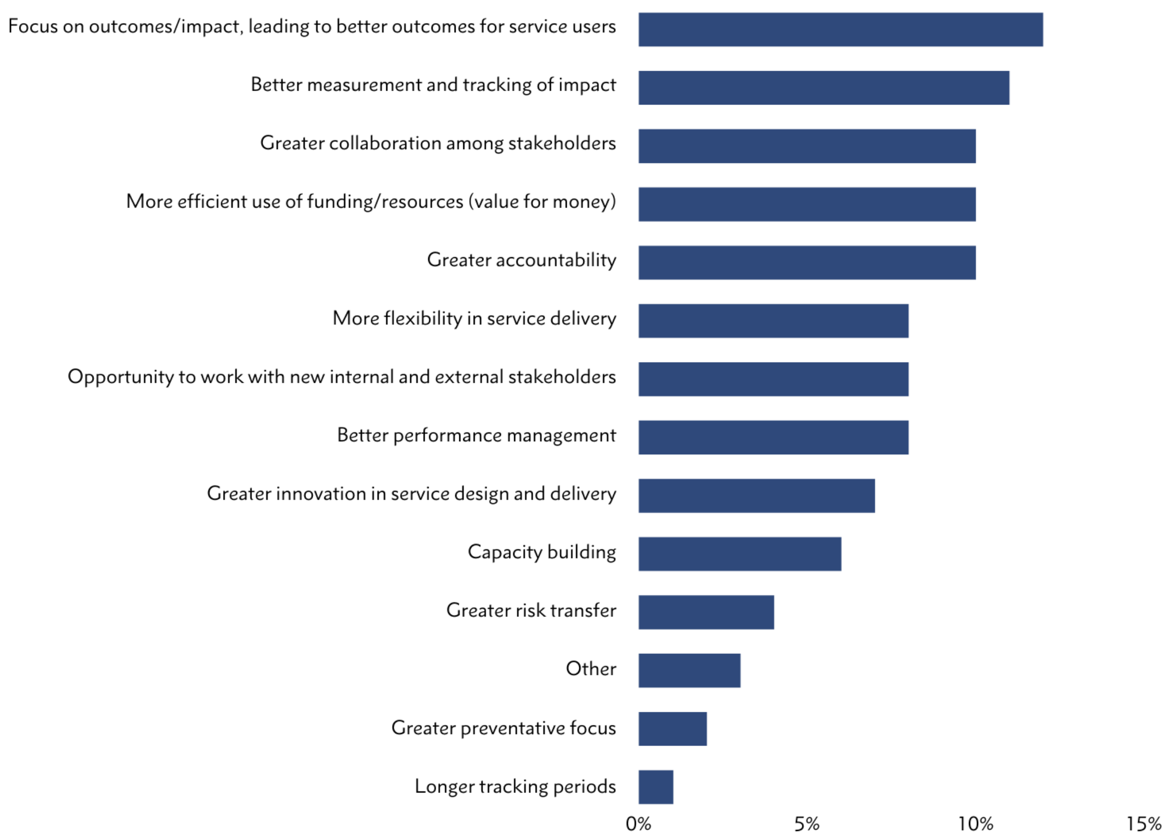

Figure 18: Rationales for using outcomes-based financing, as reported by survey participants. Figures shows all the statements chosen by participants as "strong reasons" in a multiple-choice question. Source: Government Outcomes Lab survey, 2021.

3.1.1. IMPROVING OUTCOMES AND IMPACT

Improving outcomes and impact is a dominant motivator to use OBF for research participants. This was identified by both survey respondents (chosen by 85.7% respondents as a strong reason, as shown in Figure 18) and interview participants. Interviewees highlighted a need for services to shift focus from inputs and activities to outcomes in order to improve social impact. Existing services have failed to do so, leading to poor outcomes for service users across different sectors. For example, within education, there has been substantial investment in inputs such as infrastructure and teacher training in India, but there is still room to improve learning outcomes for children. Meanwhile, employment and skilling policy areas have also seen an inflow of funding and inputs, but job placements and job sustainment could be further increased. Interviewees also indicated that service providers can sometimes be chosen based on lowest cost per beneficiary, instead of their potential to achieve meaningful outcomes.

> *We believe the larger public discourse around outcomes (and not inputs) that impact the future of 10 million disadvantaged children will gain prominence. This would drive the development dialogue in the country, in engagement with multilaterals, corporates, political leaders, governments, think-tanks, and policy makers shaping the future of education in India. - [Survey respondent]*

Interviewees suggested that a new instrument that could shift the focus from inputs and activities (such as the number of children reached or number of schools built) to measurable improvements in outcomes, while also targeting outcomes more specifically and galvanising diverse stakeholders around the achievement of these outcomes. Focussing on outcomes instead of prescribing restrictive activities also provides room for greater innovation in service design and service delivery (cited by 64.3% survey respondents as a key motivator). Evidence of this was seen in how DIBs adapted to the COVID-19 pandemic and strict lockdowns in India, by shifting services and monitoring to virtual or hybrid platforms. While other services also adopted similar approaches, close collaboration around shared outcomes (instead of inputs and activities) helped DIB projects adapt quickly and flexibly, without losing sight of the ultimate objectives.

By jointly focussing on the same outcomes, interviewees believed they can amplify social impact and achieve collective success. The shared that the endeavour of identifying meaningful, objective, and collectively agreed outcomes was also seen as a way of countering bias and achieving mutual gains.

> *Collectively we are able to get a better answer than we could have alone. - (Interviewee 13)*

3.1.2. IMPROVING VALUE FOR MONEY AND EFFICIENT USE OF FUNDING

Financing through impact bonds was perceived by research participants as helping bridge the funding gap. While impact bonds may not always bring additional funding, they can help improve efficiency of how money is spent – whether this comes from donors, taxpayers, or the private sector. This was chosen as another fundamental driver to use OBF by both survey respondents (64.3%) and interviewees.

Public investment is limited in India. Private investment is also facing a crunch. This calls for closer monitoring and greater accountability around scarce resources, and prioritising value for money. By measuring meaningfully and rewarding good performance, service providers can be enabled in scaling up their services while also ensuring efficient use of financial resources.

3.1.3. STRENGTHENING DATA MEASUREMENT AND ACCOUNTABILITY

The impact bond structure was expected to bring a focus on rigorous impact measurement and strengthen accountability. Where data was seen as fragmented and scattered, impact bonds and outcomes-based financing were expected to provide an opportunity to document impact coherently and inform future decisions. Independent evaluation by third parties was cited as a key advantage over traditional models, as it can keep all partners "on their toes" and focussed on generating impact. These evaluations were viewed to be pivotal in achieving unbiased metrics and reporting. Based on our interviews, it appears that that this advantage was not foreseen at the start of stakeholders' journeys but became apparent with time.

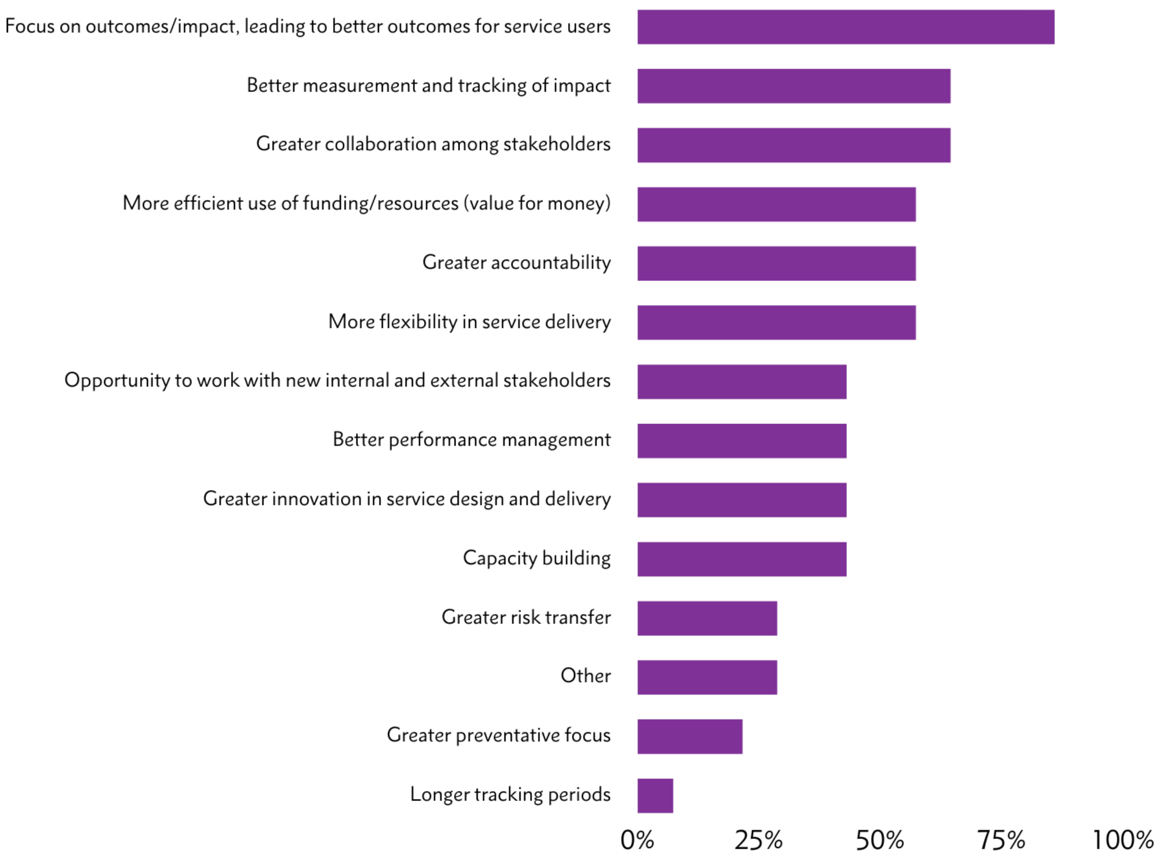

Figure 19: Key advantages of using outcomes-based financing instruments compared to traditional models, as reported by survey respondents in a multiple-choice question. Source: Government Outcomes Lab survey, 2021.

3.1.4. BOLSTERING FLEXIBILITY IN SERVICE DELIVERY AND INVESTMENT

OBF structures were also chosen for their ability to bring flexibility in two main ways. Firstly, a focus on outcomes means that the outcome funders are less involved in the programme and operational side, allowing freedom for service providers to customise the service and make changes as they see fit. Secondly, the financial instruments involved (especially in impact bonds) can allow investors flexibility in combining debt with equity. These can be tailored to each investors' preferences and needs. For example, COVID-19 resulted in the need for additional training, the funding for which could be released relatively quickly under the impact bond mechanism. An interviewee estimated that it would have taken 2-3 months to gain the necessary approvals and release funds under a grant structure.

The impact bond structure can provide reasonable returns for investors, while also signalling to development sector funders the opportunities to scale the model more widely. One participant suggested that impact bonds can create more defined, investable structures within the development sector compared to traditional funding mechanisms.

> *The impact can help us deliver what we want, at the price we are comfortable with, and at the quality that we have determined. - [Interviewee 4]*

> *[The] flexibility to update methodology and payment triggers...especially in light of verification challenges and COVID-19, allowed us to update our methodologies to align with the reality we were seeing on the ground. - [Survey respondent]*

3.1.5. FURTHERING INVESTMENT IN INDIA AS A PRIORITY MARKET

For some outcome funders, there was also strong interest to work in India, especially in a technical and knowledge sharing capacity as equal partners. Interviewees cited shifting geographical priorities for donors which tie in well with perceptions of India as a place where innovations in development have been tested, proven, and scaled up.

3.2. STAKEHOLDERS' EXPERIENCES AND LEARNINGS: COLLABORATION AND INNOVATION

Research participants reflected on their experiences of implementing and delivering outcomes-based projects in India. OBF projects are anticipated to generate collaboration and innovation, and the study identified some good examples of these in the Indian context. The onset of COVID-19 and resulting adaptation proved particularly powerful in making these aspects visible. While a range of other positives were also highlighted, this section focusses on collaboration and innovation, as these were the dominant advantages highlighted by interviewees. Survey respondents also mentioned these prominently (Figure 19), alongside other advantages already covered in the section above.

3.2.1. COLLABORATION

Shared outcomes helped bring together a diverse range of stakeholders, with different backgrounds and skillsets. A service provider reflected that the impact bond had catalysed collaboration among delivery partners, which is usually not a given. The collaboration fostered by the impact bond had encouraged them to continue working with partners in the future as well. However, another interviewee reflected that this collaboration could have been even stronger if more contact had been facilitated between the service providers involved. Going forward, opportunities for peer learning within impact bonds should be further strengthened.

> *The creation of financial instruments to provide loans to micro-contractors brought together practitioners with strong on-ground experience, financial intermediaries [who were] keen to lend to this segment, [and other] financial intermediaries that were able to get the risk capital and strong programme management. Each stakeholder had a strong expertise and interest in the success of the initiative. - [Survey respondent]*

> *All the service providers shared a common office and exchanged note on a weekly basis - [Survey respondent]*

Collaborative learning also extends to other stakeholders working in similar policy areas. For example, learnings from the Utkrisht impact bond have already been applied to other health-related projects in India focussing on TB and HIV. Payment triggers in these projects were informed by the project design experience for Utkrisht and were tailored to emulate long-term outcomes instead of shorter-term milestones. Going through the process of designing and implementing the impact bond pulled some stakeholders into the "new age of doing business." Strong relationships also facilitated prompt adaptation to COVID-19.

> *During [the] COVID-19 pandemic and lockdown situation, due to our coordination and understanding with all the partners, immediately we could start working through moving our activities on virtual web-based platforms [and] capacity building of staff of hospitals. - [Survey respondent]*

3.2.2. INNOVATION

While distance learning and other technology-based solutions do exist in India, they have not been incorporated widely into service delivery. COVID-19 served as an impetus to adopt more hybrid models (involving both in-person and virtual service delivery) and the impact bond model allowed the flexibility to adopt these into the service. These changes were seen in both the QEI and Utkrisht impact bonds, with teams shifting to hybrid schooling and remote training for clinics. Performance monitoring was also shifted to virtual means. Using technology is expected to help scale services and interventions in the future. A survey respondent also cited similar innovations in the Haryana project.

> *In Utkrisht, a move to remote training and engagement with health clinics was a good example of innovation within the programme. Also, the change to remote accreditation was a good example of innovation on the side of the independent verification. - [Survey respondent]*

> *In the Haryana project, Har Ghar School (meaning 'every home is a school'), a COVID-19 response initiative, has been appreciated for its comprehensive design for community-based hybrid learning models to provide continued learning during school closure for children belonging to the most vulnerable communities. Engagement with parents to help them support the learning of their children is a crucial aspect of the programme. Teachers, school supervisors and educational administrators contribute strongly to various aspects of the programme including tracking of student learning. Evaluation at the end of 5-month period (Aug 2019 - March 2020) showed significant improvement, especially for lowest performing students, whose average scores doubled from baseline to endline - [Survey respondent]*

> *[We] arranged teachers visit to children's homes/ communities where they could meet in small groups. [We] converted classrooms into TV rooms where video lessons could be seen by students. [We] provided facilities like sanitisers and masks to teachers and children and ensured compulsory vaccination of all adults involved with the project. - [Survey respondent]*

While some service providers expected to retain the hybrid aspects going forward, others reported that certain groups (for example, young school children) are best served through in-person service delivery as they believed that virtual formats can limit achievement of results in these cases and reported that digital access remains very limited in large parts of India, especially in remote and low-income areas.

> *[We] developed video lessons on each topic of the curriculum, but it did not work effectively for lower grades. - [Survey respondent]*

Besides innovations in service delivery, adaptations have also been supported in contract design. In the Skill Impact Bond, launched in October 2021, provisions have been added to account for economic and programmatic uncertainties due to COVID-19. Having these mechanisms allows stakeholders the confidence to proceed with design despite the economic and covid-related risks.

3.3. STAKEHOLDERS' EXPERIENCES AND LEARNINGS: CHALLENGES

We asked both survey respondents (see Figure 20 and Figure 21 below) and interviewees about the challenges they had encountered while developing and implementing outcomes-based projects. We saw considerable overlap with the challenges cited by stakeholders elsewhere, such as high transaction costs, protracted development timelines, and defining the right outcome measures. However, there were also some additional challenges owing to the nascent stage of OBF in India. Navigating legal challenges and the low-risk appetite of investors particularly stood out. Surprisingly, there was little mention of the financial risk, dependency of cash flows on outcomes achievement, and any negative perceptions around outcomes-based financing. The sections that follow offer a detailed discussion of research participants' views.

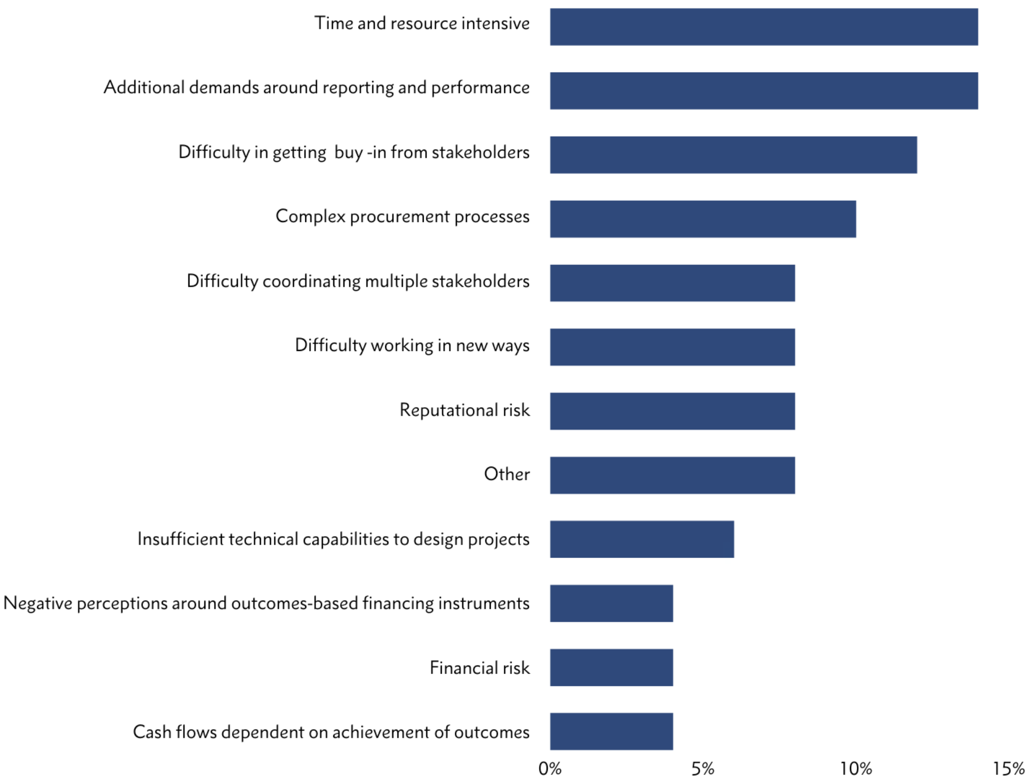

Figure 20: Challenges of using impact bonds compared to traditional models (e.g., grants), as reported by survey respondents in a multiple-choice question. Source: Government Outcomes Lab survey, 2021.

3.3.1. INCURRING HIGH TRANSACTION COSTS AND PROTRACTED DEVELOPMENT TIMELINES

High transaction costs and protracted development timelines were a recurring theme in our interviews. These challenges are not specific to the Indian context and are commonly cited in this space across the globe. While the definition of transaction costs varies, they are generally understood to include the costs of designing, structuring, and contracting projects. Some also include evaluation costs under this umbrella and considered these to be too high. However, a recently published evaluation report by Ecorys[52] reminds readers that these costs can also be incurred in projects funded by grants and other instruments and remain important for supporting the learning ambitions around impact bonds. It also prompts readers to consider these additional performance management costs in the context of additional results achieved.

> *Plan properly and build in realistic expectations of time and costs. Be clear and stick to the chosen policy area. For India, think fairly large numbers (even for pilot), engage with government, and look for champions.*
> *- [Survey respondent]*

Although it was expected that the time and cost of development would reduce over time as more impact bonds were launched, interviewees said they had not seen this in practice. Some thought each project is too different and often requires "starting from scratch" unless the same stakeholders, service design, geographical areas, and policy sectors are involved as before, and learnings are shared more widely. One interviewee commented that a reduction in these costs might occur over time, but that it would take several impact bonds "in double figures" to achieve that, rather than "just four or five."

On the other hand, another interviewee pointed out that projects' costs-per-user ratio can fall due to the better utilisation of resources and efficient delivery of outcomes. While outcome payments (and therefore returns) are usually capped in outcomes-based projects, outcomes can continue to be met beyond targets and therefore can

52. *Ecorys, 2021*

generate greater efficiency in projects. These can in turn lead to cost savings which can then be reinvested in the project. For example, interviewees suggested that 6% of the costs were saved in Utkrisht impact bond which were then reinvested to achieve more outcomes.

Early involvement of key stakeholders in the development phase is important and its absence can further elongate timelines. For example, in the Educate Girls impact bond, stakeholders spoke about difficulties and delays within the negotiations phase in the absence of service providers being finalised first. They recommended procuring service providers first, before firming up outcomes metrics to save time and align incentives more effectively.

> *It was akin to having a common elephant but with every stakeholder pointing to a different body part. - [Interviewee 2]*

3.3.2. NAVIGATING LEGAL AND REGULATORY REQUIREMENTS

Legal challenges, particular to the Indian context, were a fundamental barrier. These featured much more prominently in India than in other high-income country contexts that GO Lab researchers have studied. Blended finance is still a nascent concept in India and flow of funds between for-profit and non-profit organisations and domestic and foreign organisations is strictly regulated and still evolving, which makes transactions across these sectors difficult.

For example, qualifying companies[53] are mandated to spend 2% of their profits every year on social impact programmes under corporate social responsibility (CSR), with non-compliance and underspending resulting in penalties. There are specific rules around use of CSR funds that must be factored in for compliance when CSR funders participate in OBF structures such as DIBs. Some of these rules make it complicated to structure and implement the deals and sometimes give CSR stakeholders the impression that funding OBF instrument is less attractive than grant programmes.

> *Mentality has to change to allow for newer forms of charitable spending, which leverages charitable money in new ways. - [Interviewee 8]*

Furthermore, flow of philanthropic funds to and from India with respect to foreign donors is regulated and the rules are strictly enforced, specifying how philanthropic capital can or cannot be used or disbursed. As such, interviewees spoke about having to adapt the design to comply with the regulations or even close some deals as their design was incompatible with revised regulations.

Compared to grants, the legal agreements used for impact bonds were perceived to be too technical and complex by service providers. While trust within these collaborations helped propel negotiations forward, simplifying this language and creating standardised legal templates would be helpful for stakeholders in the future.

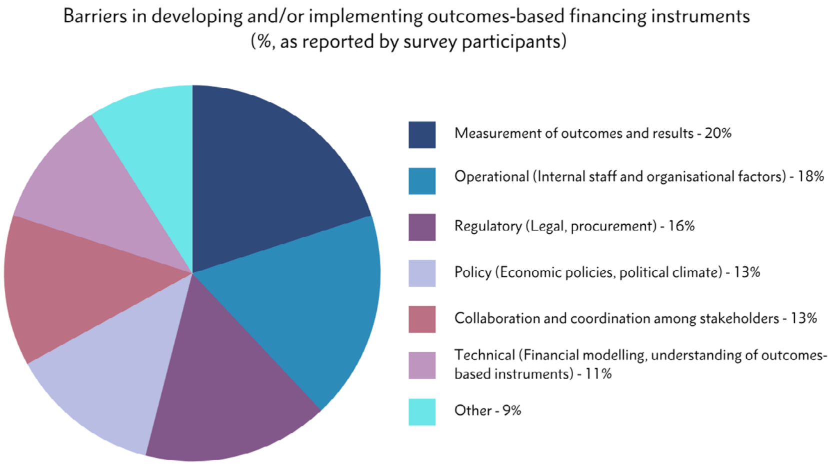

Figure 21: Barriers in developing and/or implementing outcomes-based financing instruments, as reported by survey participants. Source: Government Outcomes Lab survey, 2021.

53. A company satisfying any of the following criteria during the immediately preceding financial year is required to comply with CSR provisions specified under section 135(1) of the Companies Act, 2013 read with the Companies (CSR Policy) Rules, 2014 made thereunder: (i) net worth of rupees five hundred crore or more, or (ii) turnover of rupees one thousand crore or more, or (iii) net profit of rupees five crore or more.

3.3.3. DEFINING APPROPRIATE OUTCOME MEASURES AND FINANCIAL MODELS

Defining appropriate outcome measures and payment models (what does one pay for, how much, when, and so on), another universal OBF challenge, was also highlighted by interviewees. Representatives from different sectors underlined unique difficulties within different policy areas. Interviewees spoke about sometimes having to make value judgements when choosing outcomes metrics. Meanwhile, some outcomes such as health benefits are often visible only over longer periods of time, necessitating measurable and meaningful proxy measures which can be tracked and paid for within the lifetime of the impact bond. As outcomes had ultimately to be agreed between a set of diverse stakeholders, this was a negotiation process where the final outcome measures were seen as adequate under the circumstances, but maybe not ambitious enough. Furthermore, statistical parameters around testing also had to be negotiated.

> “ *We started by saying that we will pay for [a long-term outcome], but we ended up paying for [a short-term output]....Let's not call it a development impact bond, it is just achieving a project milestone. - [Interviewee 4]*

Understanding of terms sometimes varied between development professionals and investors, as common parlance is quite different across these sectors.

> “ *What do we mean by profit? What do we mean by surplus? What do we mean by outcome? The meaning is so different for development professionals as compared to investors. - [Interviewee 4]*

Building appropriate financial models has proved challenging. A survey respondent pointed out that financial modelling done previously for grant funding was insufficient for outcomes-based projects and could prove "misleading in terms of costs." Other respondents mentioned that modelling different scenarios can be time consuming, but also needed to evolve and take "opportunity costs or the costs of inaction" into account. Furthermore, price discovery was described as demanding – often a challenge in nascent markets. An interviewee described this to follow a mechanism which is beyond the competitive market process. While a risk premium is added on top of costs, the definition of "risk" remains subjective among stakeholders. Quantifying and monetising risk therefore complicates the outcome pricing process.

> “ *[A] long time [was] needed to design [the project] – costs are incurred but no one wants to bear the design cost. - [Survey respondent]*

> “ *Be careful of [financial] projections, which must incorporate alternate scenarios. - [Survey respondent]*

Survey respondents reported adopting a range of approaches when deciding on the appropriate investment return – usually decided between risk investors and outcome funders, sometimes with the involvement of performance managers and intermediaries. Some used external benchmarks and baselines from previous grant-funded projects or worked with intermediaries to understand market standards. Another respondent reported striking a balance between return on investment (ROI) and social return on investment (SROI) through use of a "revolving fund". Return rates were also dictated by the currency involved. One survey respondent elaborated that their calculations were based on the applicable central bank rate for that currency, with a mark-up then added to compensate the investor for taking risk.

A change in government policies can sometimes affect the achievement of outcomes, even if well-designed. For example, new government policies in India have incentivised institutional childbirth in public hospitals. For the Utkrisht impact bond, which focusses on private hospitals instead, this was as external shock which impacted engagement with service users as well as achievement of outcomes.

Many of the difficulties highlighted by research participants in designing outcomes and financial models are not unique to India. These are commonly cited by stakeholders internationally when developing impact bonds. Going forward, it will be key to keep sharing knowledge and best practice from existing projects – rate cards, peer learning on the development process, templates around calculating costs and savings, and other resources.

3.3.4. CO-ORDINATING SEVERAL STAKEHOLDERS AND SECURING BUY-IN

Having a host of stakeholders involved can be a "double-edged sword", as described by one interviewee. On the one hand, a diverse range of skills from different organisations were united around the achievement of shared outcomes. On the other hand, significant time and effort were required within negotiations as each stakeholder had different interests and priorities which needed to be aligned. The higher the number of stakeholders involved, the more complex and time-consuming the development process was expected to be. The number of contracts and stakeholders involved in individual projects has grown as impact bonds have evolved in India. An interviewee suggested that some stakeholders' voices can get diluted in the process. Conveners and enablers' roles become crucial in managing these larger structures. On balance, interviewees suggested having simpler governance structures with a limited number of stakeholders involved.

Interviewees reflected that while information sharing does occur, this could be expanded further within stakeholders who are currently not engaged and within the wider ecosystem. This was expected to achieve greater buy-in and involvement of new stakeholders.

In addition, different stakeholders were reported to hold different preferences on performance management, flexibility, and openness to risk. In the QEI DIB, a provider was dropped early on due to poor performance. Stakeholders involved in a DIB in South Africa thought closing it a few months into delivery was the right decision. However, Educate Girls took two years to start delivering results but did not make any changes to contracted stakeholders, eventually meeting and surpassing the outcome targets. Arguably, the impact bond model gives stakeholders the ability to focus resources on highly performing service providers and interventions, and to adapt the project accordingly.

In India, all existing projects are expected to experience some difficulties due to the ripple effects of COVID-19, but no changes to contracted stakeholders have been made. While this flexibility within impact bonds was welcomed by interviewees, some wondered how much flexibility in performance management was adequate – a subjective matter for now.

3.3.5. OPERATIONAL BARRIERS

Within individual organisations, operational factors could also act as barriers. For example, one survey respondent mentioned the challenge of keeping field staff motivated, who were often on short-term contracts. Uncertainty about the future could leave them feeling distracted and affect their level of commitment to the project. Others mentioned challenges around attracting the "brightest minds" to work on pressing social issues, especially while operating within "distorted labour markets." However, these challenges are common to the development sector in India and not unique to impact bonds.

Interestingly, a survey respondent mentioned that staff working for outcomes funders might see their traditional roles under "threat" from outcomes-based financing. This was seen as an obstacle in the short- to medium-term and is something outcomes funders (especially donor organisations) might need to address going forward. This points to the importance of finding alignment between OBF and organisations' missions, while remembering to build internal buy-in for new ways of working.

Operational challenges are also relevant when working with public sector or government agencies, given procurement rules and administrative layers. There was a call from research participants to update procurements procedures, as well as budgetary and taxation norms. A survey respondent described procurement processes for acquiring project-related materials while working with government as slow and bureaucratic. Such delays in supplying learning materials to schools were reported to have occurred at least three times in the last two years and could potentially impact achievement of outcomes.

While these operational barriers are not unique to impact bonds, they merit consideration and could be important to the success of future projects.

3.3.6. MONITORING AND EVALUATION

Research participants generally welcomed the monitoring and accountability associated with impact bonds. However, it was acknowledged that there was a lack of alignment on outcomes metrics, and that the process was "expensive and contested". Interviewees deliberated the right allocation of expenses for verification exercises – a common question for development and social programmes.

> *[Another thing]...I would do differently is verification. We cannot have an industry growing around verification as a business. Because if of my outcome funding 10% goes just as verification, then that is not efficient. - [Interviewee 4]*

On the other hand, another interviewee challenged this argument. They wondered if the tool had in fact been subjected to a disproportionate amount of scrutiny and whether too much was expected of it.

> *Impact bonds are not going to change the world, but even if they can just deliver their outcomes...isn't that enough? - [Interviewee 13]*

It is worth noting that impact bonds in India have had more rigorous and extensive impact evaluations than most other impact bonds in the world. Many projects are evaluated either through a randomised controlled trial (RCT) or a quasi-experimental design, and outcome payments often depend on their results, which are expected to be attributable to the interventions, accurate, and rigorous. In comparison, impact bonds in Europe use administrative data to determine outcome payments and evaluations are often process evaluations. While this attention to building evidence through rigorous evaluation is highly positive and standardised administrative data is often not even available in low- and middle-income countries, it also partially explains why evaluation costs might be considered high in India.

Another factor that drives up costs is the need to establish attribution of outcome to the interventions under OBF instruments, as the outcomes are mostly linked to payments, which may not the case in non-OBF projects. Establishing attribution requires quasi-experimental methodologies, which can be technically and operationally more expensive to implement. However, the Skill Impact Bond for example has defined outcomes in a manner that helps to establish the attribution to the intervention through programmatic elements, instead of evaluation methodology. As the OBF market matures, such practices could help optimise evaluation costs.

3.3.7. LIMITED FUNDING FROM INVESTORS AND OUTCOME FUNDERS

Research participants mentioned limited investment as well as restricted outcomes funding as core reasons behind the failure of certain projects. One interviewee reflected that the risk appetite within the Indian investment market was low and that most investors chose to work in more traditional ways. If private investors remain hesitant to take on risk, it was feared that outcome funders could choose to mirror this hesitancy by sticking to grant funding instead. However, it was hoped that once investors get more involved and realise that the risk is proportionate and backed by potential returns, their willingness to engage might increase.

3.4. STAKEHOLDERS' EXPERIENCES AND LEARNINGS: ENABLERS

We also asked research participants which factors they found helpful in facilitating the development and implementation of outcomes-based financing projects. Once again, we saw substantial overlap with stakeholders' views outside of India. Collaborating closely with partners over an intensive development process helped build long-term relationships. While technical aspects were challenging, assistance from intermediaries and conveners was instrumental and helped get projects over the line. These factors are described in more detail below and illustrated in Figure 22.

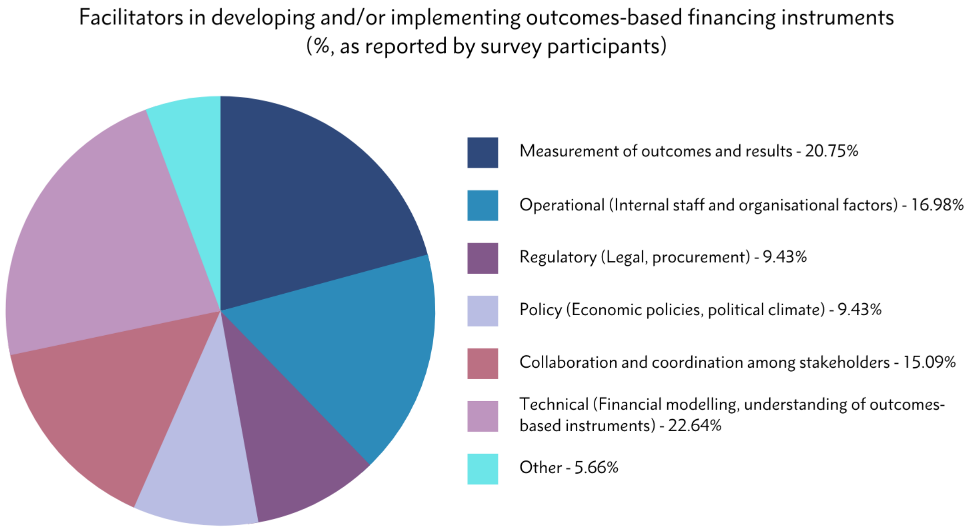

Figure 22: Facilitators in developing and implementing outcomes-based financing instruments, as reported by survey respondents. Source: Government Outcomes Lab survey, 2021.

3.4.1. TECHNICAL ASSISTANCE AND CONVENING POWER FROM INTERMEDIARIES AND ADVISORS

Technical assistance, often provided by advisors and intermediaries, was fundamental in getting projects off the ground. This included a wide range of skills – for example, building consensus, help with financial modelling, understanding target setting, experience of working on quality improvement, and knowledge on accreditation initiatives. Service providers benefited from monthly reviews and technical advice, as well as the general brainpower and learnings brought in by performance managers. They claimed that they could not have afforded or accessed this technical expertise otherwise. Local measurement partners and evaluators can help retain knowledge and learnings within the country. Interviewees suggested that if more intermediaries and technical advisors were to emerge locally, setting up and implementing impact bond instruments could potentially cost less.

The role of intermediaries and conveners was also seen as invaluable in bringing everyone together and helping align incentives across a diverse range of interests and perspectives. Without the presence of a convener, one project failed to launch as the convening simply could not happen. In particular, project and transaction managers can add value by bridging the understanding gap between outcome funders (who often come from a development perspective) and the investors (who often come from a commercial perspective).

Understanding of local context and how this differs from other places is also vital in getting technical design elements right. For example, when deciding interest rates, differences in context and currencies must be examined.

3.4.2. COLLABORATION AND COORDINATION AMONG STAKEHOLDERS

Close collaboration between internal and external stakeholders was highlighted as a key facilitator both during routine implementation and crisis resolution. A financing mechanism that relies on the achievement of pre-agreed outcomes and time-bound periodic payments "keeps everyone on their toes." If the right incentives are in place, they can move the system towards common outcomes.

Willingness to listen to one's partners, appreciating each other's strengths, and learning from each other is key. Interviewees spoke about how impact bonds forced stakeholders to work very closely and to meet regularly. This frequency and depth of interaction was indicated as unique. It can prompt stakeholders to convene faster and make decisions, especially during crises such as COVID-19, but can also act as a barrier where the coordination of a large cast of organisations is required. Meanwhile, working with the same partners across different projects can build trust and help counter operational barriers.

> *This has been a great experience. [The intermediary] was brilliant in their facilitation of the initial processes with the outcome funder and risk investor as well as anchoring steering committee meetings and interactions with the evaluator. The risk investor has been a great support for the DIB. The two outcome funders have been flexible in adjusting budgets and major activities given the pandemic. The coordination and collaboration have been terrific - [Survey respondent]*

Building on the challenges of coordinating many stakeholders, an interviewee suggested having simpler structures with a limited number of stakeholders involved. The higher the number of stakeholders involved, the more complex and time-consuming the development process was expected to be in general.

While engagement from the government is currently limited, survey respondents acknowledged the support offered to them so far. For example, the government in Rajasthan recognised and supported the Utkrisht impact bond while also providing input within the design process. Another respondent mentioned in-kind government investment through training workshops for teachers and mentors, printing of learning materials for teachers and children, and monitoring visits by academic support staff to project schools. The government was also praised for supporting access to public schools and teachers who were participating in an impact bond project. However, there was a unanimous call for more government involvement to scale and sustain the impact of OBF – discussed further in Section IV.

3.4.3. OPERATIONAL STRENGTH AMONG SERVICE PROVIDERS

India boasts a pool of experienced and competent service providers across many sectors. Many of them are willing to adopt new ways of working implied by outcomes-based projects. They have also shown great resilience and responsiveness in the face of COVID-19. Survey respondents from service provider organisations described their staff's experience and adaptiveness in glowing terms, citing them as "passionate and competent". Others mentioned internal accountability structures, previous experience with the intervention (albeit on a smaller scale), and prior experience of working with the private sector as factors that helped.

Where service providers questioned the use of data collected more closely, they said they were able to reduce some of the data collection requirements and arguably introduce more efficient use of resources. Overall, interviewees agreed that service providers should remain open to third-party evaluation and incorporate this into operational design early on. Additionally, 21% of survey respondents cited strong measurement of outcomes and results as a facilitator in developing and implementing outcomes-based financing projects (see Figure 22). Going forward, service providers suggested that they should be more involved in the design phase, as they will ultimately be responsible for delivering interventions and achieving outcomes.

The example of Educate Girls also demonstrated the benefits of being patient and giving service providers the space to experiment and execute the project without too much interference. Despite a slow start, the project was able to achieve its outcomes in later years and was ultimately deemed a success.

3.4.4. ENABLERS FOR THE FUTURE

Across the board, there was agreement that lessons and learnings need to be captured more systematically and disseminated more widely – including more international contexts beyond India. This is expected to collectively push the outcomes-based financing space forward and avoid the repetition of mistakes. For example, this can include a 'checklist' of steps that can help stakeholders understand what is involved. It can also involve building a glossary and common language, as well as templates for design and contracting. There is a need to build wider understanding around these tools, beyond the stakeholders who are already involved. While capacity building of local institutions is a key ingredient here, involving the wider public through public seminars and webinars should also be considered.

> *It has lacked a template in terms of project design, project financing, contracting, and legal framework. It took more time in putting all the pieces together to arrive at the final design ready for the implementation. - [Survey respondent]*

More buy-in and support from the government would be a facilitator, but at the moment, this has not been fully leveraged.

4. LOOKING AHEAD: FUTURE DIRECTIONS, SCALING, AND SUSTAINABILITY

This final section builds on key stakeholders' insights to explore the future of -outcomes-based financing tools, especially impact bonds, in India. It investigates stakeholders' views on using such tools to sustain and scale up impact in a LMIC context. The analysis expands on how stakeholders' learnings can be fed into wider policy and practice.

4.1. FUTURE DIRECTIONS

We asked survey respondents and interviewees their expectations for the future. Research participants were generally optimistic as they reflected on future directions for outcomes-based financing in India.

> *Financing for outcomes is here to stay...many government schemes might also move to this [approach]. - [Interviewee 6]*

When asked if outcomes-based financing can be used to scale impact and build capacity in LMICs, 71% (10) survey respondents responded with "yes," while 21% (3) chose "maybe" and just 7% (1) said "no" (see Figure 23). Most interviewees also said they would like to stay engaged in this space and would do another impact bond. However, they agreed that the processes and complexities that surround it need more streamlining. Ongoing and completed impact bonds are expected to generate crucial evidence on whether these structures can truly facilitate better social outcomes. Experimentation around policy areas, governance structures, and outcomes metrics will also produce crucial learning. Together, they can mitigate some of the challenges mentioned in earlier sections of this report. The section below discusses research participants' hopes and expectations in more detail.

Figure 23: Survey respondents' views on whether outcomes-based financing can help scale impact and build capacity in LMICs. Source: Government Outcomes Lab survey.

4.1.1. OPPORTUNITY TO USE FUNDING MORE EFFECTIVELY AMIDST FUNDING UNCERTAINTIES

The existing funding gap is likely to be exacerbated with time as the effects of COVID-19 and repeated lockdowns continue to materialise. If company profits are hit due to COVID-19 and the economic downturn, organisations' ability to fund CSR might be diminished. In parallel, some foreign funders have faced budget cuts and internal reorganisation which has led them to narrow down their focus. Furthermore, complex regulatory requirements might make it difficult for global donors to participate in these structures. When combined, these factors aggravate funding challenges and underscore the immediacy to invest in alternative structures which can use resources as efficiently as possible.

4.1.2. GROWING CONFIDENCE IN UNDERSTANDING AND DEVELOPING IMPACT BONDS

It is hoped that the costs of setting up these projects, a universal challenge in this space, will decrease over time. Familiarity with the instrument, awareness of regulatory frameworks particular to India, and development of local capacity are expected to smooth the way for future projects. A history of successfully delivering seemingly complex projects will build confidence in the market and unlock more financing for the sector. Having accomplished this despite COVID-19 will offer further assurance.

> *The DIB, through its focus on results, has brought quality to the forefront. What's exciting is that this bond is pushing the NGO sector to deliver in a way that is timely and more efficient. We are getting important data on the costs of quality improvement and [the fact] that private providers are willing to invest in quality. This is an important data point for our team as we are eager to demonstrate to governments that the private sector is a ready and willing partner in achieving national health targets and adhering to national guidelines. Through this bond, we are generating important insights on how much quality costs, private providers' willingness to invest in quality, and correlations between better quality and better health. - [Survey respondent]*

With more performance data expected to become available over the next few years, service providers see opportunities to improve their visibility and to increase their fundraising capabilities (based on good results). A service provider contended that they had not been put under very tough performance management and would in fact would be happy to work under stricter conditions in the future, to ensure even better focus on outcomes and efficiency.

4.1.3. BUILDING A SUPPORTIVE ECOSYSTEM AROUND OUTCOMES-BASED FINANCING

There is also interest in innovations within the wider ecosystem that support outcomes-based financing. An outcome payer shared that while this space is very "trendy", it is hard to scale. Funnelling more money into impact bonds to increase deal sizes or alternatively launch outcomes funds might justify the associated costs and challenges better. Countries such as the UK have used outcomes funds extensively to help pool funding, ease the challenges of finding willing funders, and get buy-in from local governments. Interviewees saw potential in launching these in India, to combine financing from both philanthropic and private sources. They also mentioned the example of digital technologies such as online platforms, where outcome funders can directly "buy results" without having to go through intermediaries.

4.2. SCALING OUTCOMES-BASED FINANCING

As most research participants agreed that outcomes-based financing was worth continuing, we sought to explore how this might be scaled and sustained in practical terms. Questions of scale are particularly important in contexts such as India, where the size of the population and the demand requirements often necessitate solutions that can help large numbers of people. Securing government buy-in emerged as a fundamental requirement to scale OBF in India. This must be complemented by robust evidence and a supportive ecosystem.

4.2.1. GETTING GOVERNMENT BUY-IN

To truly scale outcomes-based financing, government buy-in and involvement is key. Interviewees agreed that the Indian government must act as an outcome payer if the approach is to gain traction. Given the involvement of public money, interviewees agreed that the outcome funder role is more suitable for governments than that of risk funders. Public money being used to pay for outcomes has more favourable optics than money being used as risk investment, especially if it involves more efficient use of public funding and better value for money. However, in certain cases like the Skill Impact Bond, where a quasi-government body such as NSDC has in-depth experience and knowledge of a sector and the mandate to foster innovation, it could play the role of a risk investor and be more hands-on in performance management and setting quality standards with service providers. While support from central and state governments is key for OBF to become a truly established approach, local governments must be engaged too.

The only way for this to scale, especially in India, is when the government engages. There is just no other way this can be scaled. - [Interviewee 13]

The usual exit strategy is to transfer the programme into a self-sustaining model or move learning to the public sector. The challenge is to engage the public sector. Often, public sector works with annual budget cycles or on political election cycles. - [Survey respondent]

A survey respondent advocated a convergence of the non-profit sector, the private sector, and government to drive social impact through their individual strengths and roles.

We strongly believe in convergence of 3 forces: impact driven non-profits, governments, and markets each performing different but complementary functions... We believe in highest form of collaboration by forming a joint enterprise with the state. Our experience has been fantastic and believe this is a template of "Non-profit, public partnership (NPPP)" that can be replicated for social public services delivery. The recent vaccine development with Oxford was largely publicly/taxpayer funded and it can become a viable alternative mode to profit-maximisation-based pursuits in delivery of social public goods like education/healthcare/platform technologies, and over time common goods like forests etc. - [survey respondent]

Greater involvement from governments was also seen as beneficial for the government itself, rather than just the OBF sector. The Indian government could use this as an opportunity to shift focus towards meaningful outcomes in sectors where procurement is predominantly input-driven (for example, education), and scale-up evidence-based models across the country.

We asked survey respondents what barriers and enablers influence government involvement within OBF in India (illustrated in Figure 24 and Figure 25 below). Regulations, procurement rules, legal aspects, a resistance to working in new ways, and lack of data collection and measurement capacity were cited as common barriers. Meanwhile, building greater buy-in from outcome funders, promoting an understanding of outcomes measures and outcomes-based financing, and simplifying regulations were seen as key to enabling more government engagement.

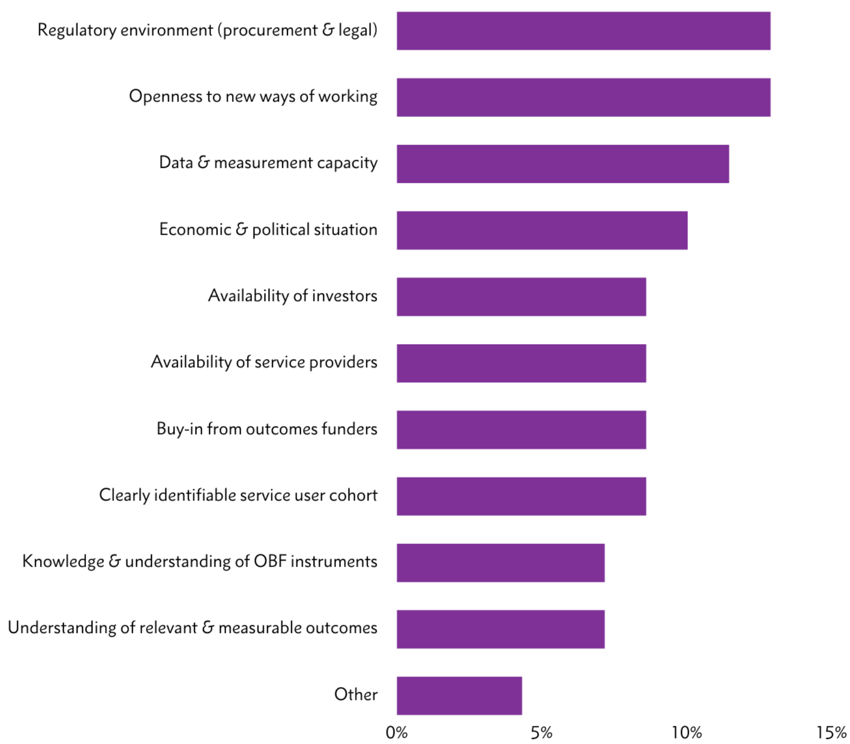

Figure 24: Barriers to government involvement in outcomes-based financing in India, reported by survey respondents in a multiple-choice question. Source: Government Outcomes Lab survey, 2021.

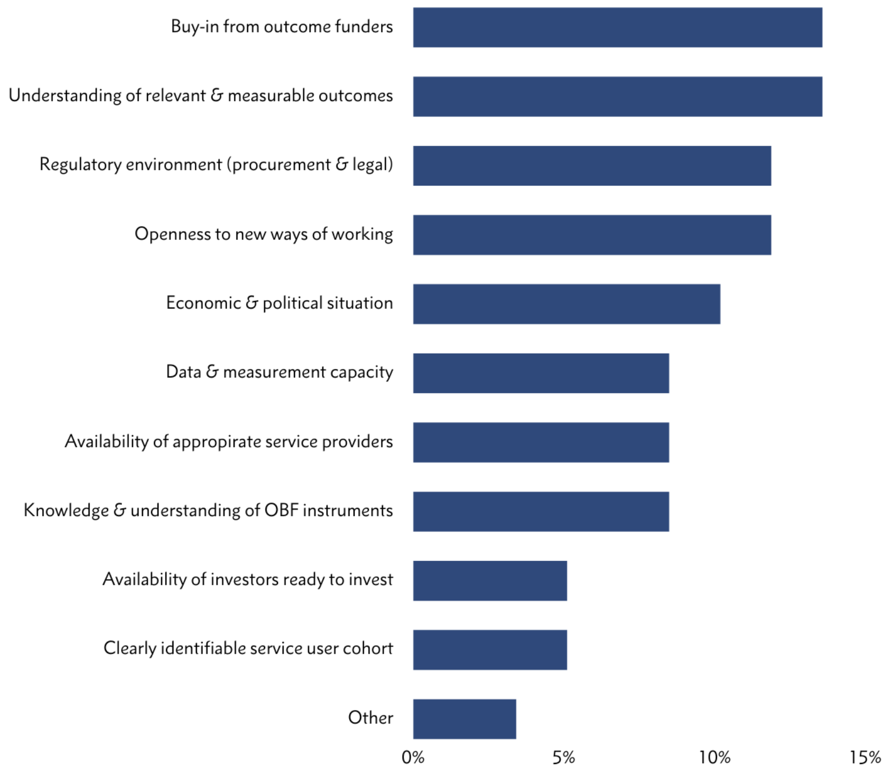

Figure 25: Enablers to strengthen government involvement in outcomes-based financing in India, reported by survey respondents in a multiple-choice question. Source: Government Outcomes Lab survey, 2021

It was suggested that initial government involvement could be eased in by first involving them as minority outcome funders (for example, just 10% of total outcomes funding). Moving towards public sector outcome funders might in turn benefit the scope of programmes, by allowing them to extend to a wider set of individuals and becoming more inclusive (for example, by extending services to parents in addition to children within education programmes).

Positive interest from public sector organisations such as NITI Aayog, Securities and Exchange Board of India (SEBI), and National Skills Development Corporation (NSDC) can be channelled to drive the conversation forward and build momentum across government departments. From previous experience, interviewees found certain government departments to be easier to work with than others. In the short run, these departments could be approached to act as early adopters and champions. Working with them, stakeholders might be able to generate early evidence and momentum, push for changes in the wider ecosystem (including legal changes), and acquire buy-in from other government departments too.

4.2.2. USING PERFORMANCE DATA AND EMERGING EVIDENCE TO BOOST CONFIDENCE

Over time, the track record built by completed projects should facilitate government buy-in. To channel this as effectively as possible, stakeholders should continue to actively document their experiences with OBF, including emerging evidence and its added value over traditional commissioning mechanisms. Government interest will be cemented only when they see clear demonstration of benefits exceeding costs. These should be contextualised to reflect the challenges and opportunities particular to India. Learnings from the early years should be mainstreamed into wider learnings and disseminated visibly. Interviewees felt that the measurement and learning frameworks in India are generally weak but could be strengthened by the evidence focus within OBF.

> *These projects form an important evidence base for future projects. - [Survey respondent]*

We hope this first-of-its-kind DIB funded by CSR grants will catalyse CSR investment for outcomes-based projects and also promote investment for foundational learning. - [Survey respondent]

This will serve as an exemplar for state and international education departments to build capacity for public procurement, and implement effective monitoring and evaluation structures that facilitate data driven decision-making. This will eventually intercept the low-accountability, low-learning equilibrium. - [Survey respondent]

4.2.3. BUILDING A SUPPORTIVE ECOSYSTEM TO ASSIST DEVELOPMENT

As discussed above, government buy-in is crucial but must be complemented by further changes in the ecosystem. In tandem, a supportive ecosystem must facilitate the development and implementation of these tools. For example, interviewees suggested that the government might need to configure its procurement procedures if it decided to get involved as an outcome payer and wants to contract with service providers. Tax incentives and legislative reforms might be needed to incentivise impact investors to participate.

The newly announced Social Stock Exchange (SSE) is another example of creating an enabling environment. The SSE is envisioned as a platform which will not only mobilise capital for social enterprises, but also do so more transparently and efficiently. Both non-profit and for-profit organisations will be eligible, provided they prioritise social impact and are engaged in one of the 15 social activities approved by the Securities and Exchange Board of India (SEBI).

India's SSE is expected to have two main benefits. Firstly, it will improve market access and visibility among investors and streamline capital inflows from multiple sources – impact investing, philanthropy, corporate social responsibility, as well as the public sector. Secondly, the SSE will establish minimum reporting standards and metrics for all listed organisations, which will standardise and improve social impact assessment. Both these elements strengthen the capacity and capability of stakeholders to participate in OBF.

Following recommendations from a working group, the SSE was approved on September 28th, 2021. SEBI will serve as the regulatory body and is now coordinating with the Indian government to set the SSE up. The working group recommended setting up a $13.4 million capacity-building fund to help social enterprises list on the SSE and raise awareness around it, which has been supported by SEBI.

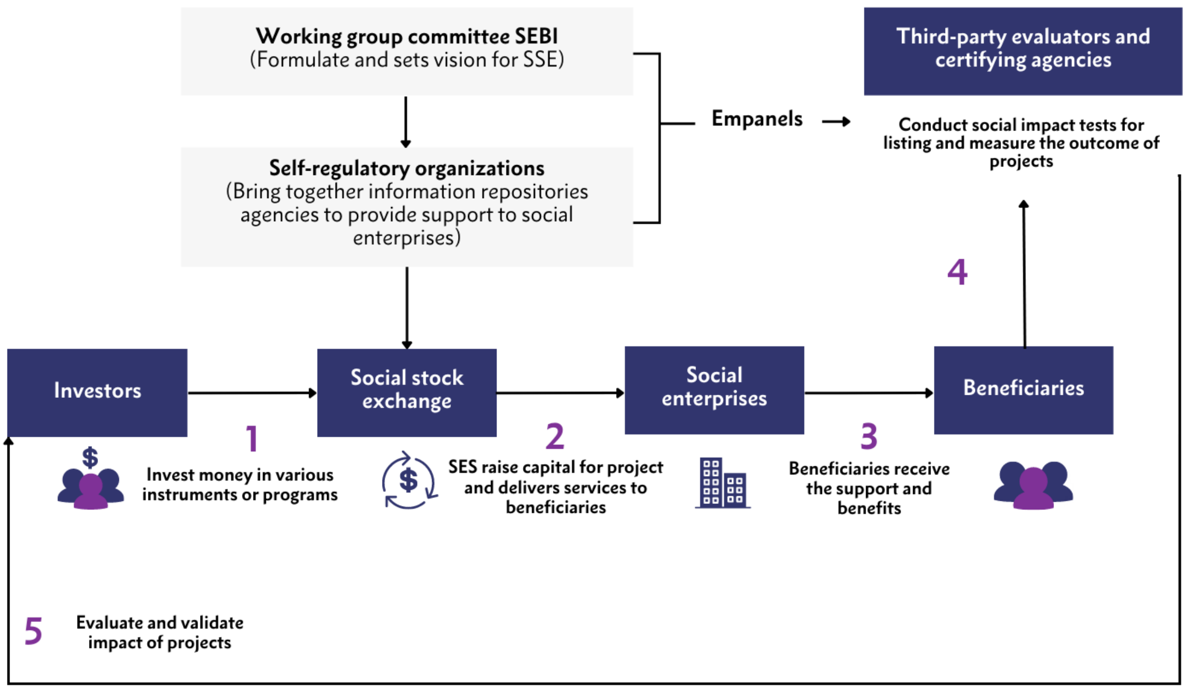

Figure 26

4.3. SUSTAINABILITY OF OUTCOMES-BASED FINANCING

Sustaining impact relies on multiple factors, including providing long-term, high-quality support to beneficiaries while also building capacity among local stakeholders and developing clear exit strategies. This section builds on interviewees' suggestions on how best to achieve this

4.3.1. SUPPORTING LONG-TERM SERVICE PROVISION

Firstly, service users' outcomes need to be tracked beyond the lifetime of the project, and at times, they need to be offered a continuation of the service. This is also true of innovative services such as those involving digital solutions. Like other elements of a programme, they need to be sustained beyond the life of the impact bond projects but might require additional resources. For example, if 50 students received laptops as part of an education project, these need to be maintained over time, which requires additional funding and technical skills that might not have been factored into original budgets. Expanding innovative models to additional schools or service users and maintaining them over time therefore produces its own challenges and resource constraints. These might result in a "sprinkling of the treatment" rather than a systematic rollout.

4.3.2. BUILDING CAPACITY AMONG LOCAL STAKEHOLDERS

Secondly, capacity needs to be built and embedded within a range of local actors including funders and local and national governments, so that they understand the concept of OBF and are able to both continue existing services as well as launch new ones, independent of foreign actors. There seems to be some traction here, with a range of competent local organisations already involved. However, more work might be needed if projects are to be expanded to include new stakeholders and bring them in as contracted parties in the future.

4.3.3. USING PERFORMANCE MANAGEMENT TO SUSTAIN SERVICE QUALITY

Thirdly, the extensive performance management involved within service delivery could help sustain service quality over time. It remains to be seen if the experience of delivering these projects will help service providers get more funding and expand their operations in the future. If high-quality services are maintained beyond impact bonds and organisational learning is embedded in ways which bypass personnel turnover, this could be another route to sustain impact and bring together the two factors discussed above. Stakeholders highlighted that this approach is being trialled in the Skill Impact Bond.

4.3.4.DEVELOPING CLEAR EXIT STRATEGIES

Finally, interviewees struggled to articulate a clear exit strategy following the completion of their impact bond projects. This suggests that there is room for stakeholders to reflect on impact beyond just the payable outcomes metrics. Beyond design considerations, they must identify clear actions they would like to take once the project ends, based on a range of potential performance scenarios. Having a better understanding of these aims will incentivise and galvanise efforts around sustaining impact.

5. CONCLUSION

Landscape of outcomes-based financing in India
India is one of the leading lower- and middle-income countries (LMICs) to experiment with impact bonds. It has launched four impact bonds to date, with more than $10 million investment committed and more than 360,000 service users anticipated to be engaged. A pipeline of new impact bonds is in development, alongside other projects within the wider outcomes-based financing space. Besides impact bonds, India has also experimented with social success notes, and hopes to launch a social stock exchange soon. This report takes stock of the state-of-play of outcomes-based financing (OBF) in India, captures learnings from key stakeholders, and synthesises their perspectives on enabling scaling and sustainability.

Key drivers for using outcomes-based financing in India
Improving outcomes and impact is a dominant motivator to use OBF for research participants. Interviewees highlighted a need for services to shift focus from inputs and activities to outcomes, in order to improve social impact. OBF structures are also expected to bring a focus on rigorous impact measurement and strengthen accountability. OBF projects are anticipated to generate collaboration and innovation, and we heard some good examples of these in the Indian context. The onset of COVID-19 and resulting adaptation proved particularly powerful in making these aspects visible. Furthermore, OBF is expected to improve efficiency in spending and supports momentum around investing in India – often seen as a pioneer in testing, proving, and scaling up innovations in international development. While impact bonds currently comprise a small contribution to the SDG funding gap, their focus on outcomes can help improve efficiency of how money is spent – whether this comes from donors, taxpayers, or the private sector. This will be particularly important for addressing new resource constraints produced by COVID-19.

Key challenges within outcomes-based financing in India
We saw considerable overlap with the challenges cited by stakeholders across the globe- such as high transaction costs, protracted development timelines, and defining the right outcome measures. These challenges are therefore not surprising but can be mitigated over time by better sharing of data, peer learning, and legal templates. However, there were also some additional challenges owing to the nascent stage of OBF in India. These included navigating legal and regulatory challenges and encouraging more stakeholders to invest in innovative models such as outcomes-based contracts.

Key enablers within outcomes-based financing in India
Collaborating closely with partners over an intensive development process helped build long-term relationships. While technical aspects were challenging, assistance from intermediaries and conveners was instrumental and helped get projects over the line. Operational strength from service providers boosted service quality. Across the board, there was agreement that lessons and learnings need to be captured more systematically and disseminated more widely – including more international contexts beyond India.

Future directions – scaling and sustainability
Research participants were generally optimistic as they reflected on future directions for outcomes-based financing in India. Most interviewees said they would like to stay engaged in this space and would do another impact bond. However, they agreed that the processes and complexities that surround it need more streamlining. Ongoing and completed impact bonds are expected to generate crucial evidence on whether these structures can truly facilitate better social outcomes. Questions of scale are particularly important in contexts such as India, where the size of the population and the demand requirements often necessitate solutions that can help large numbers of people. Securing government buy-in emerged as a fundamental requirement to scale OBF in India. This must be complemented by robust evidence and a further developed ecosystem for legal and procurement aspects. Ultimately, sustaining impact relies on multiple factors, including providing long-term, high-quality support to beneficiaries while also building capacity among local stakeholders, and developing clear exit strategies.

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7. APPENDIX

India Case Study by Oxford-BAT: Qualitative survey

Informed consent for survey

Q1 Informed Consent Form for Oxford-British Asian Trust case study on India

GENERAL INFORMATION
The Government Outcomes Lab (GO Lab) is a joint partnership between the University of Oxford and HM Government. We research and build evidence on outcomes-based financing instruments and invite you as stakeholder in this space to participate in this survey. In collaboration with the British Asian Trust, we are bringing together leading stakeholders to share learnings from the Indian experience with outcomes-based projects, and discuss the way forward. This is pioneering work in the Indian context, and we are excited to set the foundations for an annual exercise geared towards capturing valuable insights. The study's findings will be disseminated to policymakers and academic researchers internationally through a report, a conference presentation hosted by the University of Oxford, and our website.

This project has been reviewed and cleared by the University of Oxford Central University Research Ethics Committee (Reference number: SSH/BSG_C1A-21-17).

INFORMATION ABOUT THIS STUDY
The survey contains questions about your organisation's experience in setting-up and/or implementing an outcomes-based financing instrument , stakeholder management, and the impact of Covid-19. You will also be asked to provide general information about yourself and your organisation. Findings will provide guidance on designing and implementing outcomes-based financing instruments in India and beyond both for policy-makers and practitioners. The survey takes approximately 20 minutes to complete but does not need to be completed in one session - your answers will automatically save as you progress through the survey.

CONFIDENTIALITY
The information you provide will be kept strictly confidential, only members of the GO Lab Research Team will have access to your data. Your personal data – including name and contact information – will be allocated a study number and stored separately from the survey data. Both the de-identified data and survey data will be stored in password protected Excel files on secure University systems. The survey data will be used in publication within a public-facing case study report and academic journals. You will not be identified by name in any of these documents, however, given the small size of the SIB market, you may be identifiable as a key stakeholder in specific projects.

Research data and records will be stored for a 3-year period after publication or public release according to University guidelines. The survey will be conducted through Qualtrics, a safe, secure and internationally acknowledged online software. However, it should be noted that, although every reasonable effort has been taken to safeguard confidentiality, it cannot be guaranteed during actual internet communication procedures. Whilst all data will be transferred from Qualtrics to the GO Lab team upon completion of the survey, data may be stored on Qualtrics backups or server logs beyond the timeframe of this research project.

LEGAL BASIS for DATA PROCESSING
Your data will be part of University research. Therefore, the processing of your data is of public interest and entirely fulfils the requirements of the Data Protection Act 2018.

DATA PROTECTION RIGHTS
The University of Oxford is the data controller for the purposes of the Data Protection Act (DPA) 2018 and the General Data Protection Regulation (GDPR) 2016. You have the right to access information held about you. Your right of access can be exercised in accordance with the DPA 2018 and the GDPR 2016. You also have rights including correction, erasure, objection and data portability. If you are concerned about how your personal data is being processed, please contact in the first instance the Information Compliance Team at Oxford University at data.protection@admin.ox.ac.uk. If you remain unsatisfied, you may wish to contact the Information Commissioner's Office (ICO). Contact details, and details of data subject rights, are available on the ICO website at: https://ico.org.uk/media/for-organisations/data-protection-

reform/overview-of-the-gdpr-1-13.pdf

CONTACT

If you have any concern about this survey or your participation in it, please contact the Principal Investigator, Dr. Mara Airoldi (mara.airoldi@bsg.ox.ac.uk), who will respond to your query within 10 working days. If you remain unhappy wish to make a complaint, please contact the following representative of Research Ethics Committee at the University of Oxford:

Chair, Social Sciences & Humanities Inter-Divisional Research Ethics Committee ethics@socsci.ox.ac.uk
Research Services
University of Oxford
Wellington Square
Oxford OX1 2JD

For general questions about the research, please contact:
Tanyah Hameed
Government Outcomes Lab
Blavatnik School of Government Radcliffe
Observatory Quarter Woodstock Road
Oxford OX2 6GG
Email: tanyah.hameed@bsg.ox.ac.uk

PARTICIPATION

Your agreement to participate is voluntary and may be withdrawn at any time during the research process by contacting the research team using the above information. If you withdraw from the study before data collection is completed your data will be destroyed at your request.

CONSENT TO PARTICIPATE

If you have read the information above and agree to participate with the understanding that the data you submit, including any personal data, will be processed accordingly, please select "Yes, I consent." below to begin the survey.

Yes, I consent to participate (1)

○ No, I do not consent to participate (2)

○

General information

Q2 Name of person submitting survey:

Q3 Position and organisation:

Q4 Email:

Stakeholder roles and policy areas

Q5 Please name all the outcomes-based financing instruments/projects you have been involved with. Please separate project names with semicolons (;)

Q6 What role(s) have you played in past and current projects? (Select all that apply)

- ○ Outcomes funder (1)
- ○ Investor/investment fund manager (2)
- ○ Intermediary (3)
- ○ Service provider (4)
- ○ Researcher/evaluator (5)
- ○ Advisor/consultant (6)

Q7 What role(s) would you like to play in future projects? (Select all that apply)

- ○ Outcomes funder (1)
- ○ Investor/investment fund manager (2)
- ○ Intermediary (3)
- ○ Service provider (4)
- ○ Researcher/evaluator (5)
- ○ Advisor/consultant (6)

Q8 If the future role you'd like to play is different to your current/past role, please explain why this has changed.

Q9 Which policy area(s) have you worked on within these projects?

Please select all policy areas that apply in the first column, and add a corresponding number of projects for each of these in the second column. For all other policy areas, please leave the first column unticked but type "0" in the second column.

	Number of projects in each policy area	Policy area(s)
	Enter a number for each policy area selected (1)	Select all that apply (1)
Employment and training (1)		○
Child and family welfare (2)		○
Health (3)		○
Homelessness (4)		○
Education (5)		○
Criminal justice (6)		○
Agriculture (7)		○
Environment (8)		○
Poverty reduction (9)		○
Water and sanitation (10)		○
Energy (11)		○
MSME development (12)		○
Humanitarian aid (13)		○
Gender issues (14)		○

Q10 Why did you pick this policy area(s) to use outcomes-based financing in?

Q11 Why did you use outcomes-based financing instead of traditional models (e.g., grants)? Please rank each of the reasons below to indicate their importance in your thinking.

	Strong reason (1)	Moderate reason (2)	Weak reason (3)	Not a reason/did not consider (4)
To counter financial pressures and/or utilise new sources of finance (1)	o	o	o	o
To improve focus on outcomes and impact (2)	o	o	o	o
To mitigate and/or transfer risk (3)	o	o	o	o
To collaborate with new partners and sectors (4)	o	o	o	o
To enable a more preventative focus (5)	o	o	o	o
To counter demand pressures and improve outcomes for service users (6)	o	o	o	o
To enable more flexibility in service delivery (7)	o	o	o	o
To improve value for money & enable efficient use of funding (8)	o	o	o	o
To enable greater innovation in service design and/or delivery (9)	o	o	o	o
To encourage better data tracking & impact measurement (10)	o	o	o	o
To encourage greater accountability (11)	o	o	o	o
To experiment with new ways of procurement & contracting (12)	o	o	o	o
To capitalise on a limited time opportunity (13)	o	o	o	o
Other (14)	o	o	o	o

Q12 What were the main stakeholder roles and functions that you see within outcomes-based financing instruments? Please select all that apply and add any that are missing here.

- o Outcomes funder (1)
- o Investor/investment fund manager (2)
- o Intermediary (3)
- o Service provider (4)
- o Researcher/evaluator (5)
- o Advisor/consultant (6)
- o Other: (7)

Design and development process

Q13 What have been the key facilitators in developing and/or implementing outcomes-based financing instruments? Please select as many as applicable and describe what these were.

- Technical (financial modelling, understanding of outcomes-based instruments) (1)
- Regulatory (legal, procurement) (2)
- Policy (economic policies, political climate) (3)
- Operational (internal staff and organisational factors) (4)
- Measurement of outcomes and results (5)
- Collaboration and coordination among stakeholders (6)
- Other (7)

Q14 How did you/other stakeholders in the project decide on the appropriate investment return? How was this calculated?

Q15 Is there any support that you received from the government, or support that you would have liked to receive from the government? Please describe the nature of this support and if it was received.

Q16 What have been the key barriers in developing and/or implementing outcomes-based financing instruments? Please select as many as applicable and describe what these were.

- Technical (financial modelling, understanding of outcomes-based instruments) (1)
- Regulatory (legal, procurement) (2)
- Policy (economic policies, political climate) (3)
- Operational (internal staff and organisational factors) (4)
- Measurement of outcomes and results (5)
- Collaboration and coordination among stakeholders (6)
- Other (7)

Q17 Were there any specific challenges during the initial design and structuring period? (especially for projects that ultimately did not launch). Please describe these.

Q18 For any project(s) that did not launch, at what stage of the process did it break down (e.g. procurement, design etc). Please explain why you think the project(s) failed to launch and your learnings from this.

Q19 What have been your key learnings from the process of designing the project?

Implementation and performance

Q20 For any projects in implementation/completed, please describe how these have performed so far (e.g. in terms of achieving their outcomes, service delivery etc). If referring to multiple projects, please describe these separately.

Q21 What are the key advantages of working with outcomes-based financing instruments compared to traditional models (e.g. grants)? Please select as many as appropriate and add any that might be missing.

- Focus on outcomes/impact, leading to better outcomes for service users (1)
- Greater collaboration among stakeholders (2)
- Greater preventative focus (3)
- More efficient use of funding/resources (value for money) (4)
- Longer tracking periods (5)
- More flexibility in service delivery (6)
- Greater innovation in service design and delivery (7)
- Opportunity to work with new internal and external stakeholders (8)
- Better measurement and tracking of impact (9)
- Better performance management (10)
- Capacity building (11)
- Greater risk transfer (12)
- Greater accountability (13)
- Other (14)

Q22 What are the key challenges of working with outcomes-based financing instruments compared to traditional models (e.g. grants)? Please select as many as appropriate and add any that might be missing.

- Time and resource intensive (1)
- Difficulty in getting buy-in from stakeholders (2)
- Difficulty coordinating multiple stakeholders (3)
- Difficulty working in new ways (4)
- Insufficient technical capabilities to design projects (5)
- Complex procurement processes (6)
- Negative perceptions around outcomes-based financing instruments (7)
- Additional demands around reporting and performance management (8)
- Reputational risk (9)
- Financial risk (10)
- Cash flows dependent on achievement of outcomes (11)
- Other (12)

Q23 What is a good example of collaboration between stakeholders that you have seen in outcomes-based financing? Please specify which project(s) you are referring to.

Q24 What is a good example of innovation that you have seen in outcomes-based financing? Please specify which project(s) you are referring to.

Q25 What have been your key learnings from the process of delivering/implementing the project?

COVID-19 adaptation

Q26 Was your project(s) impacted by COVID-19?
- O Yes (1)
- O No (2)

Display This Question:
If Was your project(s) impacted by COVID-19? = Yes

Q26a Please describe how your project(s) was impacted.

Display This Question:
If Was your project(s) impacted by COVID-19? = Yes

Q26b Please describe how your project(s) adapted to COVID-19.

Display This Question:
If Was your project(s) impacted by COVID-19? = Yes

Q26c Are there any innovations that have come out of COVID-19 in terms of how you validate data, monitor and evaluate your project(s)? Please describe these.

Exit strategy and future directions

Q27 What is the exit strategy following the completion of the project(s)? Please describe how outcomes and impact will be sustained, and how learnings will be used within wider policy and practice.

Q28 What will be the implications of the project(s) on the wider outcomes-based financing sector in India?

Q29 What will be the implications of the project(s) on the wider policy area in India?

Q30 What are some opportunities for governments to be more involved in outcomes-based financing?

Q31 What are some barriers for governments who want to be involved in outcomes-based financing? Please select as many as appropriate and add any that might be missing.
- O Regulatory environment (procurement and legal) (1)
- O Data and measurement capacity (2)
- O Economic and political situation (3)
- O Availability of investors ready to invest (4)
- O Availability of appropriate service providers (5)
- O Buy-in from outcomes funders (6)
- O Knowledge and understanding of outcomes-based financing instruments (7)
- O Understanding of relevant and measurable outcomes (8)
- O Openness to new ways of working (9)
- O Clearly identifiable cohort of service users (10)
- O Other (11)

Q32 What are some enablers that could strengthen government involvement in outcomes-based financing within India? Please select as many as appropriate and add any that might be missing.

- Regulatory environment (procurement and legal) (1)
- Data and measurement capacity (2)
- Economic and political situation (3)
- Availability of investors ready to invest (4)
- Availability of appropriate service providers (5)
- Buy-in from outcomes funders (6)
- Knowledge and understanding of outcomes-based financing instruments (7)
- Understanding of relevant and measurable outcomes (8)
- Openness to new ways of working (9)
- Clearly identifiable cohort of service users (10)
- Other (11)

Q33 Based on the Indian example, do you think outcomes-based financing can be used to scale impact and build capacity in lower and middle income countries (LMICs)? Please describe why.

- Yes (1)
- Maybe (2)
- No (3)