



Innovative financing
instruments for development

Popping up like daisies



samen werkt.



The Spindle
connecting innovators for development

Popping up like daisies

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Content

Introduction	3
How to achieve development goals faster and more efficiently?	
Instruments and cases	
Result-based approaches	10
Cash transfers Temporary cash for permanent change	11
Impact bonds 'Costly, cumbersome – and good'	17
Result-based finance Ten dollars for a successful birth	23
Business approaches	28
Social entrepreneurship 'A charity dollar lives one life, a social business dollar lives eternally'	29
Social franchise Like McDonald's, but with a social mission	34
Impact investments	40
Blended finance Mobilising new capital for the SDGs	41
Impact investing Balancing heart and head	47
Other approaches	52
Local fundraising Shifting the power to the South	53
Conclusion and recommendations	58
Throwing away the tight corsets	
Related external sources	61

How to achieve development goals faster and more efficiently?

The traditional instruments for financing development are insufficient or inadequate to face the current development challenges. Accordingly, innovative financing instruments are popping up everywhere in the development sector. The multitude of initiatives makes it difficult for NGOs to orient themselves in this field. This publication aims to give an overview of the opportunities, challenges and impacts of these innovative financing instruments.

'We are exploring innovative cash programmes, by making use of big data and forecasting models of meteorological systems. The idea is to develop a system that automatically and immediately releases cash transfers in the days prior to disaster striking.'

Sam de Greve, cash technical advisor at Plan International

'Collaborating with social enterprises is new for us. We are looking for a model that provides benefits for both parties. I see it as a new strategic direction, and I really believe in it.'

Richard Kooge, manager Business Development & Innovation at CARE Nederland

A growing number of non-governmental organisations (NGOs) is experimenting with – or already using – financial instruments different from traditional grants. They do so to mobilise new forms of capital to tackle humanitarian and development challenges. But how big is this trend, and what kind of innovative finance do they mainly work with?

InterAction, the largest alliance of international NGOs and partners in the United States, conducted a survey on this issue in 2018. Some 50 member organisations responded on questions about their knowledge of the mix of innovative finance instruments for development (IF4D), and the use they already make of these instruments. Here are the main findings.

Key findings from the Interaction survey

- There are more NGOs seeking to expand their activities in, or to enter, the IF4D market than NGOs already in the space.
- Among organisations implementing IF4D approaches, the most commonly used options have been performance-based contracts and approaches traditionally associated with impact investing.
- Among the Top-7 instruments of interest,

Introduction

four are result-based: performance-based contracts, impact bonds, conditional cash transfers, and awards & prizes. The other three are direct equity, microfinance investment funds, and concessional loans.

- Among the organisations implementing IF4D, the most common role was investor, followed by intermediary, recipient, and supplier of technical assistance.
 - The top motivations for organizations implementing IF4D are to create more sustainable funding flows or recycle capital, scale or expand the reach of existing programmes, and drive efficiency and value for money.
 - IF4D activities place a bigger burden on NGOs compared to traditional grants. The respondents especially mentioned the time needed to implement, external partner engagement, rigour of impact measurement and evaluation, total staff involved, financial resources, specialised expertise, and legal complexity/compliance.
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Many of the organisations that responded to the survey cited lack of information about different financing instruments and how they work – and lack of information about IF4D opportunities and partners – among the top challenges in their efforts to explore new financing options.

What about NGOs that have their base in the Netherlands? Is their situation comparable with the group that participated at the InterAction survey? On request of its member organisations Partos, the Dutch membership body for organisations working in international development, put this question on the table. To collect more knowledge and exchange experiences, the Partos innovation platform The Spindle organised a Community of Practice on Innovative Finance throughout 2019. In a number of sessions, the spotlight was on how different organ-

isations in the field are working with innovative ways of financing development. Each session touched upon one or two innovative financing instruments that are currently being explored, experimented with or implemented.

The main goal of the meetings was to exchange views on the topic, discuss experiences and share success stories and failures so as to identify opportunities and pitfalls, and formulate recommendations regarding each financing instrument. All presentations and minutes, as well as the main insights and lessons learnt are shared on the Spindle's website.

The publication you are reading now is also an outcome of the Community of Practice. It is a journalistic display of some of the most interesting stories and cases, based on a series of interviews. It explicitly does not strive for completeness, nor is it a manual. Much more, it is an attempt to reach a broadly interested target group (and therefore not just financial specialists) with an accessible publication that showcases inspiring frontrunners and their innovative approaches in the field of IF4D.

Why should NGOs be interested?

Over the last couple of years, also in the Netherlands, many NGOs made the strategic decision to integrate one or more innovative finance instruments into their business plans. Others are contemplating doing so. Why is this, and what are the main reasons for doing it?

The overall reduction in international aid and development funds is frequently mentioned as a key reason for NGOs to diversify their existing funding base. The increased competition makes shrinking government pockets seem even smaller. One could counter argue that it is unlikely that governments will soon stop funding NGOs, and big funds will not disappear in the short term either. However, it is true

Introduction

that some significant shifts are already taking place, and NGOs should prepare to anticipate and act upon these. The move towards performance-based contracts represents an undeniable trend in the institutional setting of the development sector. Especially donors are in favour of the slogan: 'Don't reward activities, reward results.'

Another major reason is the financial vulnerability that stems from a high dependency on only a few large donors. Melanie Rieback, founder of the world's first non-profit computer security company Radically Open Security, argued in her presentation at the first session of Community of Practice on Innovative Finance that NGOs have to avoid falling into the 'subsidy trap', in which they become dependent on this financial stream and are not allowed to make revenue on their own.

A third, more substantive argument is that the grand old model of investing tax money from the 'Global North' into programmes in the 'Global South' via NGOs is not working well enough: organisations need to move from being foreign aid implementers to true international development organisations. So, financing mechanisms are not only important to improve the financial resilience of NGOs, but can also improve the way money is spent on their projects and activities. Organisations within development cooperation may benefit from these innovative mechanisms whether they are (un)conditional cash transfers or revolving funds.

All these changes point to one thing, concludes Christian Meyer zu Natrup – who helped to guide NGOs like Cordaid through a transformation process: *'There is great need to change from a traditional NGO that secures and implements government development and aid projects, toward a development organization that can think creatively, act independently and account for its actions openly.'*

'Official Development Assistance (ODA) is by far not enough to achieve the goal of lifting mankind out of extreme poverty. We need to mobilise more financial resources and realise new financial models for this. These models pop up like daisies, but it might be difficult to tell which of them are interesting for you and which you should ignore.'

Han Valk

So, what exactly is IF4D?

A well-known definition of the Overseas Development Institute describes innovative finance for development as: *'A range of mechanisms intended to raise more money from capital markets for development and humanitarian aid.'* The emphasis on capital markets however results in an unnecessary exclusion of other sources of funds and kinds of markets. So here we follow the example of InterAction by using a broader definition of IF4D: *'Any instrument beyond a traditional grant that mobilises new capital and/or improves the efficiency or effectiveness of existing capital to tackle social and environmental problems.'*

This also means that innovative finance is not always the same as financial innovation: using existing products in a different way, or bringing in new players, can also be considered as an innovation. Look, for example, at the emerging concept and practice of blended finance, which is traditional grant funding, used to attract further private sector investment in emerging markets.

Introduction

The first goal of IF4D is *not* to gain additional financing! Participants at the first session of the Partos Community of Practice on Innovative Finance stressed this point: innovative finance should be regarded as a means to an end, and not as the end in itself. Of course, the possibility of raising new capital is attractive, but the true potential of innovative finance is in achieving more impact, increasing cost-effectiveness, and stimulating new solutions to development problems. Or, as Maarten Mulder (Han Valk Fundraising Consultancy) stated in his presentation, the underlying objective of IF4D should always be *'to achieve development goals faster and more efficiently'*. In this formu-

lation, 'faster' equals obtaining more money in the same timeframe, while 'more efficiently' refers to the achievement of better results with the same amount of money.

The InterAction report mentioned above exposes the various possibilities of IF4D. The different methods are divided into three different groups according to their goal. The second category mainly focusses on efficiency and effectiveness. The third one on the expansion of funding. The first category shows some cross-overs between the other two, the instruments here are meant both to generate more income and to make better use of it.

Innovation Finance Toolbox

Crowd in private sector

- Microfinance investments funds
- Impact investments funds
- Direct equity
- Concessional loans
- Guarantees
- Catalytic grants
- Bonds

Raise additional funds

- Innovative taxes
- Crowdfunding
- Voluntary contributions

Improve efficiencies

- Performance-based contracts
- Impacts bonds (SIBs/DIBs)
- Debt swaps/buy downs
- Conditional cash transfers
- Awards and prizes
- Advance market commitments
- Insurance schemes

Note

DIB = development impact bond

SIB = social impact bond

Source: *Innovative Finance for Development, InterAction, 2018*

Introduction

Which innovative instruments are the most popular?

Which instruments are already being implemented, which ones are in the pilot phase and which others are merely being explored? At the first meeting of the Partos Community of Practice, participants discussed the actual situation.

Already common

Microfinance investment funds: use within the sector is widespread. Its effectiveness on economic development as a standalone intervention is debated. Accordingly, the emerging trend goes towards a combination of microfinance with other development interventions.

Awards and prizes: seem especially relevant to catalyse innovative and risky ideas. They are highly attractive but also highly competitive, which often results in high transaction costs and low expected returns.

Upcoming

Guarantees: useful to cover risks while piloting other financing tools, but difficult to finance from private sector, so accessible only for NGOs that can afford to be guarantors.

Performance-based contracts (e.g. a grant which is partially transferred only after the previously agreed results have been achieved): strong trend, especially with institutional donors. Clear accountability is an obvious advantage of this instrument, while the non-payment in case of non-delivery represents the most evident risk. Moreover, this tool needs thorough agreements and is accessible only to (larger) NGOs that can afford to pay the pre-funding of the grant.

Advance market commitments (e.g. Gates Foundation financed research on new medications): needs large partnerships, substantial government buy-in and is therefore often available only to larger NGOs.

Crowdfunding: creates new opportunities for private donations, and is accordingly particularly useful in countries with a significant middle class.

Promising

Conditional cash transfers: especially interesting in interventions that aim at behavioural change. However, a trend is also taking place towards unconditional cash transfers, which seem to be very promising in the short run (more cost-effective and significantly lower transaction costs), but in the long term the last word has not been said yet.

Insurance schemes (especially in health and employment sectors): significant impact on covering livelihood risks. NGOs generally play the role of intermediary, similar to the case of microfinance.

From NGO to social enterprise?

A more general question which comes up when discussing the different financing instruments is if, and how, NGOs can earn their own money (i.e. generate their own cash flows)? Is it possible to do so while formally keeping their foundation status, or is it necessary to become a social enterprise? Of course there is the legal possibility for foundations/NGOs (*stichtingen*) to have a private business entity (*bv*). Oxfam, for example, does have its own publishing company. Another model which might be interesting to explore and experiment with is the social franchise, employed by NGOs such as Aflatoun and Dance4Life.

Introduction

Cordaid has already been through the transformation process from an NGO to a social enterprise, and Solidaridad is looking into the possibility. The question is whether the organisation should keep its current formal status, and if so, how the structure could and should be adapted to be able to generate their own cash streams. In other words, how do you make sure that innovative financing models (business models) for NGOs still fall under the current regulations? And if that is not the case, where should NGOs head to? Which form should they assume?

'A large number of Dutch NGOs want to work more from a business model', says Maarten Mulder. 'In addition to the legal problems that you may encounter, this also requires a major mind shift. If you really want to make financial sustainability central, the ambition to do something good should no longer be the starting point. Then you have to start with a business perspective. Not with the aim of maximizing profit, but in the way that social enterprises do. That still requires a whole shift in thinking.'

For the time being, Solidaridad is experimenting with blended finance approaches, in which grant funding is used to attract further private sector investment in emerging markets. 'Let's be honest', says Tim Diphooorn, business development manager at Solidaridad. 'For NGOs, it's difficult to provide loans. We are also not going to jeopardize our not-for-profit ANBI-status.' The solution is found in the creation (together with ICCO Cooperation) of the crowdfunding platform PlusPlus. 'This is a fairly new approach for Dutch NGOs. It's about working with different sources of financing right from the start.'

The sweet spot of philanthropy

Is there a middle way between traditional funding and grants (which have a 0% rate of repayment) and financing (like loans and bonds, whereby repayment normally amounts to 103-105%)? This discussion is also ongoing among equity funds and impact investors. Some make a multi-annual budget available for sustainable projects, in which they envisage an repayment of 95%. This way, it takes many years before the budget is totally consumed, while at the same time numerous sustainable projects can be financed. 'If you look over a period of at least ten years', says Maarten Mulder, 'then this approach probably generates more impact than pure grants or financing.'

But there is a lack of good projects to invest in. And there are legal issues. Especially institutional donors find it hard to cope with such a mixed approach. 'Anything more than 0 percent return is difficult for them. And they will not start an activity with less than 103 percent financial return. While precisely that 90 or 95 percent return is the sweet spot of the philanthropist.'

Still isolated success stories, or really a trend?

This publication offers many inspiring examples of innovative financing instruments for development. But how representative are they? Is the situation here comparable to that in the US, where the InterAction survey concluded that 'there are more NGOs seeking to expand their activities in, or to enter, the IF4D market than NGOs already in the space'?

Yes, insiders say. The experience with the various innovative instruments is still limited. There are examples available with every instrument

Introduction

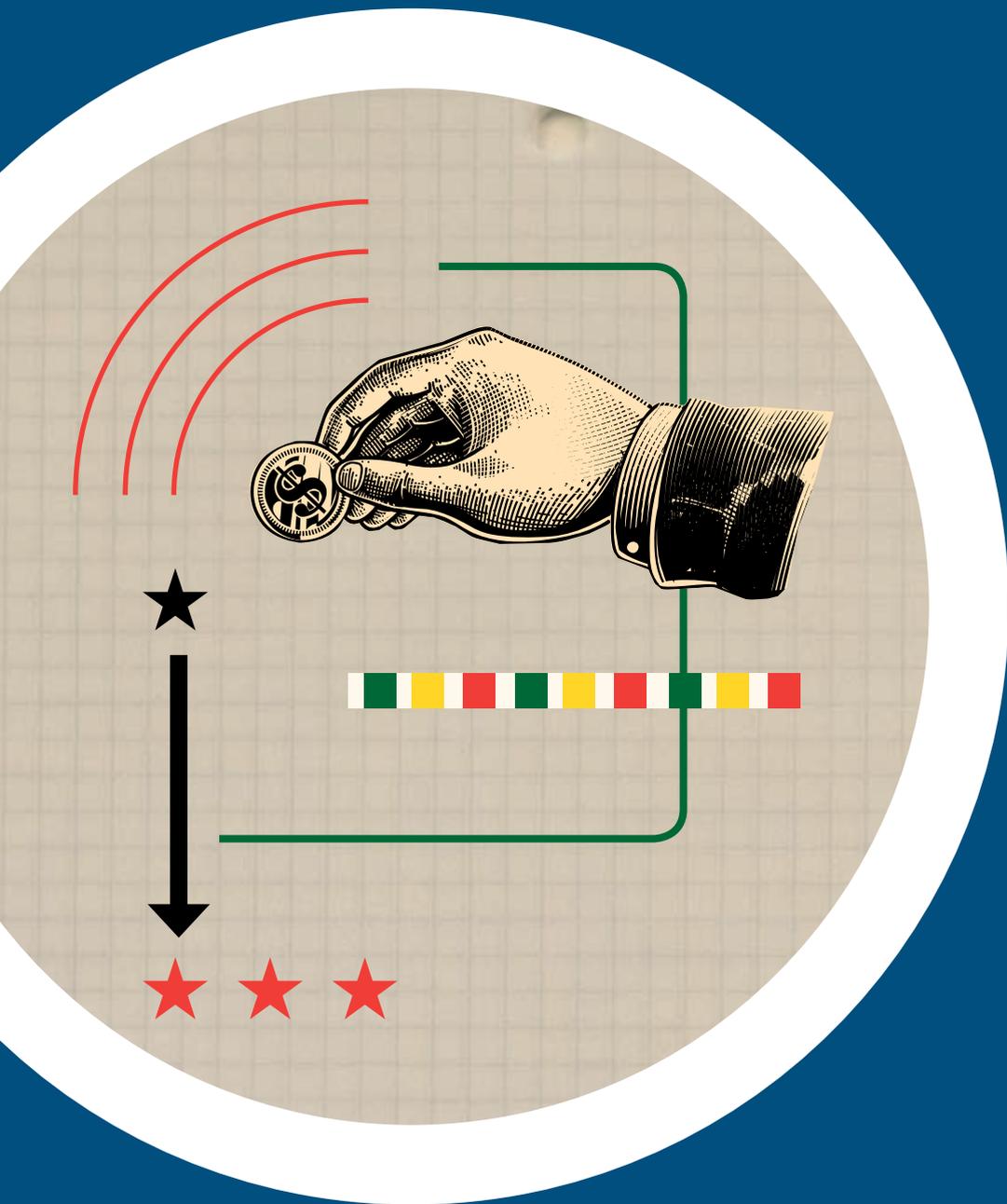
that is covered in the following pages. But each of them is still mainly in the pioneering phase. It is also important to know which motivation inspires organisations to experiment with IF4D. Small, innovative NGOs often do so out of frustration about the failure of the current system to bring about real change. An example is 100WEEKS, that provides 8 euro a week to women in Ghana and Rwanda. Money that they do not have to pay back and can spend as they wish. The underlying assumption is that cash transfers are more successful and more cost effective compared to at least some other development approaches.

Another innovative approach is the exit strategy of the Karuna Foundation. This organisation firmly states that in 2025 it will end its activities to improve the lives of children and adults with disabilities in rural communities in Nepal. Municipalities and provinces are expected to have taken over the jointly established programmes by then. 'Our vision is that external parties should act as a booster, to strengthen current government institutions and create a structure that can be supported locally', says director Annet van den Hoek.

In other cases, however, it is mainly pressure from outside that drives organisations towards innovative approaches. Result-based approaches are especially often donor-driven. 'Many NGOs are forced to join in, but are still hesitant about it', says Mulder. 'It is not a very attractive approach for them. You have to pre-finance everything, and the question is whether you will eventually get your money back.' That does not alter the fact that, even though result-based programmes are donor-driven, NGOs may gradually integrate this into their overall approach. ICCO Cooperation, Cordaid and SNV have already extensively internalized result-based approaches.

It may be concluded that most Dutch NGOs are not at the forefront of international IF4D approaches, but are open to them. There are, however, still major differences between organisations, Mulder says. 'NGOs that have always relied heavily on individual donors and the collection box, will not immediately turn to innovative financing. But with larger organisations there is a strong feeling that they should not miss the boat. The developing world is changing rapidly. You have to go along with that.'

Large (international) NGOs still spend most of their funding in a traditional way. At the same time, they are pioneering with innovative approaches. They do not change everything at once, but have the capacity and the funds to experiment. These organisations can also learn from the smaller ones – including social enterprises – that embrace innovative approaches, and vice versa. More cooperation therefore seems to offer prospects for IF4D that benefits all involved, organisations as well as beneficiaries.



Result-based approaches

Cash transfers

Temporary cash for permanent change

Transferring money directly, with or without conditions, is 'hot', not only within the aid community but also in the media. 'Don't give grain or a cow, just give money: that is the new credo in development aid', the Dutch daily *de Volkskrant* headlined in a recent article. 'Because people themselves know best what they need.' However, the article also concluded that 'nobody knows yet how it will work out in the long term.'

The newspaper article was inspired by the 100WEEKS programme in Ghana and Rwanda. Under this programme, 500 women each receive 8 euro per week for two years via their mobile phones. Money that they do not have to pay back and can spend as they wish. The underlying assumption is that cash transfers are more successful and more cost effective (meaning that they achieve most improvement per euro spent) compared to other development approaches.

While the Netherlands and the rest of the developed world are still struggling with the idea of giving free money to combat extreme poverty, it has been used in developing countries for longer and with greater frequency. Brazil set the tone in 2003 under former president Lula da Silva, with the extremely successful Bolsa Familia programme, that took millions of Brazil-

ians out of poverty. The programme made cash transfers to low-income families on the condition that they met requirements such as ensuring that children attended school and were vaccinated. This way, the programme both reduced short-term poverty and succeeded in fighting long-term poverty by increasing human capital among the poor. Bolsa Familia reached 26 percent of Brazil's population.

Other Latin American and Asian countries have followed with similar programmes, often with the support of international donors or the World Bank, in which millions of families in dozens of countries participate. As of 2016, 63 countries had at least one conditional cash transfer programme (ODI, 2016).

Money donations have become increasingly unconditional in recent years. The initial fear that people would spend money on, for example, stimulants such as alcohol, proved unfounded. Research shows that a considerable majority of people are becoming more productive, investing in better seeds or other means of production, and sending their children to school.

Besides the dichotomy between conditional or unconditional transfers, there are many other variables in actual implementation of cash transfers. The approaches differ in who is entitled to receive the money – ranging from

Result-based approaches

only the poorest people to everybody within a certain community – and for how long the money is given: from a limited period of time to indefinitely. Another question is whether transfers should be accompanied by training or service delivery programmes or not. In practice however, there almost always seems to be a training and coaching/support component connected with cash transfer programmes. These are often compulsory, making the cash transfer conditional (which is however not always explicitly mentioned). Currently, several Dutch organizations and researchers are experimenting with different mixtures of cash transfer ingredients in order to find the sweet spot.

Mainstream in humanitarian aid

International NGOs soon developed their own cash transfer programmes. This method has even become mainstream in recent years within humanitarian aid programmes. While cash transfers were hardly used in 2014, four years later, 10 percent of the \$27 billion spent on emergency situations were already paid out in the form of money or vouchers (figures from OCHA, the coordination centre of UN emergency aid organizations). Large emergency aid organizations such as ICRC have already adjusted their cash targets for 2020 to 25 percent.

Instrument (Un)conditional cash transfers

NGO roles Donor
Intermediary

Objectives Improve efficiency

Feasibility – Key factors

- Challenging to target those who could most benefit from the programme and ensure they have access to quality services
- Need to take measures to avoid corruption, cheating, or unintended consequences
- Long time to launch depending on level of political momentum and programme design features; thereafter, programmes are typically relatively streamlined and efficient.

Source: Innovative Finance for Development, InterAction, 2018

As part of the Dutch Relief Alliance, Dorcas is implementing the 'multipurpose cash and protection' approach, e.g. in Ukraine. Other NGOs have also set targets for what are often called Cash & Voucher Assistance programmes. Plan International Nederland is one of them, and in their humanitarian programming they particularly focus on women and (adolescent) girls. Moreover, says Sam de Greve, cash technical advisor at Plan, 'together with partners such as Oxfam Novib and Global Parametrics, we are also exploring innovative cash programmes by making use of big data and forecasting models of meteorological systems. The idea is to develop a system that automatically and immediately releases cash transfers in the days prior to disaster striking.' This phased approach would allow the beneficiaries not only to respond to disasters, but also to anticipate them and be better prepared for when they strike. 'It enables people to make decisions based on their individual needs, and empowers particularly women and girls, reducing protection risks.'

Result-based approaches

Plan International also supports vulnerable adolescent girls and their families through Cash & Voucher Assistance, so that they do not need to work, and face protection risks, but instead have time to engage in safe and quality education or vocational training. After graduation, they receive the assets required to start their chosen profession and keep receiving cash support for a few months to help them set up their own business.

The technology used has involved development by Plan International of a digital Cash Transfers platform called the Up2U-card. This enables cash transfers in remote locations without the need for continuous internet connectivity or having to pay expensive service charges or fees to commercial organisations. The card, says De Greve, has two other big advantages: 'It gives people the dignity and choice of how and where to use the financial support, while giving Plan the possibility to improve on accountability and report with more transparency.'

CARE Nederland has been implementing an EU-sponsored cash-for-work pilot programme in two governorates in Yemen for the last couple of years. It recruits vulnerable members of the local community to participate in communal works, and pays them so that they can cover their basic needs. An impact study found mixed results, and a tendency to differ from

village to village, but overall positive changes in most households. The women's ability to maintain and even grow their livelihood options improved, especially in female-headed households.

CARE Nederland is currently doing research on the nexus between cash transfers and long-term resilience and independence, says Merlijn van Waas, head of sustainable development at the NGO. A positive outcome could mean a shift from cash transfers as a tool for humanitarian emergencies to a financing instrument for chronically vulnerable people. 'Cash hand-outs for people in emergency situations rarely last longer than 3 months. The Yemen project involved a 9-month period, with a broader objective. The impact study now recommends extending that period to a minimum of 12 months. This reduces the chance that people will relapse again when support stops. Further advice is to invest even more in an enabling environment, meaning the combination of cash transfers with more regular development aid.'

Van Waas hopes that the pilot in Yemen will yield a model that can also be applied in countries such as Iraq and Syria. 'There are still enough questions. For example, whether you should target the most vulnerable or those who are slightly less vulnerable but who have the most potential? It is still too early for precise answers, but the concept of cash transfers – also outside of direct humanitarian emergencies – is interesting enough for us to want to continue it.'

There is growing evidence that the straightforward intervention of providing a 'temporary basic income' through cash transfers is able to address more structural development challenges.

Digital transformation of aid

The logic behind cash transfers as a resilience-improving tool rather than as a remedy against humanitarian emergencies is straightforward. If people are economically secure and know they don't have to worry about their livelihood for some time, they might be motivated to save and invest more.

Result-based approaches

The experiences of GiveDirectly were a source of inspiration for NGOs that focus more on structural solutions than emergency aid. The American NGO has already reached more than 125,000 households in eastern Africa with a cash transfer programme since its start in 2013. Various studies into this programme show that people's mental and physical well-being will immediately improve as soon as they receive money. After nine months, the first constructive investments become visible, such as the purchase of cattle and other means of generating an income, and essentials such as furniture or a corrugated iron roof.

Like the GiveDirectly approach 100WEEKS provides cash, but adds financial training and peer to peer coaching to its model. In the Partos Community of Practice, the NGOs initiator Jeroen de Lange clearly presented the case for the digital transformation of aid (using mobile money technology) as a proven effective way to actually reach the millions of people currently living in poverty in Sub-Saharan Africa and, to a lesser extent, in South-East Asia. 'Cell phone ownership in Africa is surging at a remarkable rate. This means that most people living in poverty can be reached directly; we can send them money and information, and collect information from them.'

It is important, however, to realise that not everyone everywhere has access to a mobile phone. This can essentially mean that certain groups of people are not able to benefit from technologies like these. Or, in other words, more than just technology is needed to make sure no-one is left behind.

Concerning the selection method of beneficiaries of the cash programmes, 100WEEKS relies on local partners, says co-founder Gitte Büch. 'The amount of cash given differs according to context and country, but is always enough to cover both consumption and investment to enable the increase in income.'

As far as the financing is concerned, most of the money comes from private donations and foundations. Transparency and money tracking are essential elements that create trust amongst the donors. 'For the time being, we monitor the impact of our interventions through mobile surveys. The women are being called seven times during the course of the programme and six months and one year after graduation. We are also exploring the possibility of extending the monitoring to the long term.'

Also active in this field is Connect International, with its innovative approach Cash4All4Life. This consists of cash transfers (equal to 25 per cent of the extreme poverty line, meaning 12 dollars per adult per month), unconditionally (no training required) and for all. Connect International's conclusion from their own experiences, as well as Bolsa Familia and many other cash transfer programmes, is that cash transfers are cost effective. Furthermore, the organisation expects to see exponential effects, eventually meaning quicker, better and less costly humanitarian aid at a lower level.

However, evidence also seems to show that as cash transfers stop, the positive trends become reversed. That is why Connect International suggests cash transfers should be for life. Furthermore, Cash4All4Life envisages generic cash transfers rather than targeted ones, because their cost-effectiveness would be greater. Moreover, as beneficiaries do not need to be identified and selected, the rollout would become quicker while corruption and political interference could be avoided. That being said, they emphasise that cash transfers still need to come with tailor-made support programmes, focused for example on health, market development, education and vocational training (the enabling environment).

Convincing cost-effectiveness

There is growing evidence that the straight-forward intervention of providing a 'temporary basic income' through cash transfers is able to address structural development challenges. That would make it an important ingredient in the mix that can help people to sustainably achieve better lives through increased well-being, resilience, and sustained escape from poverty.

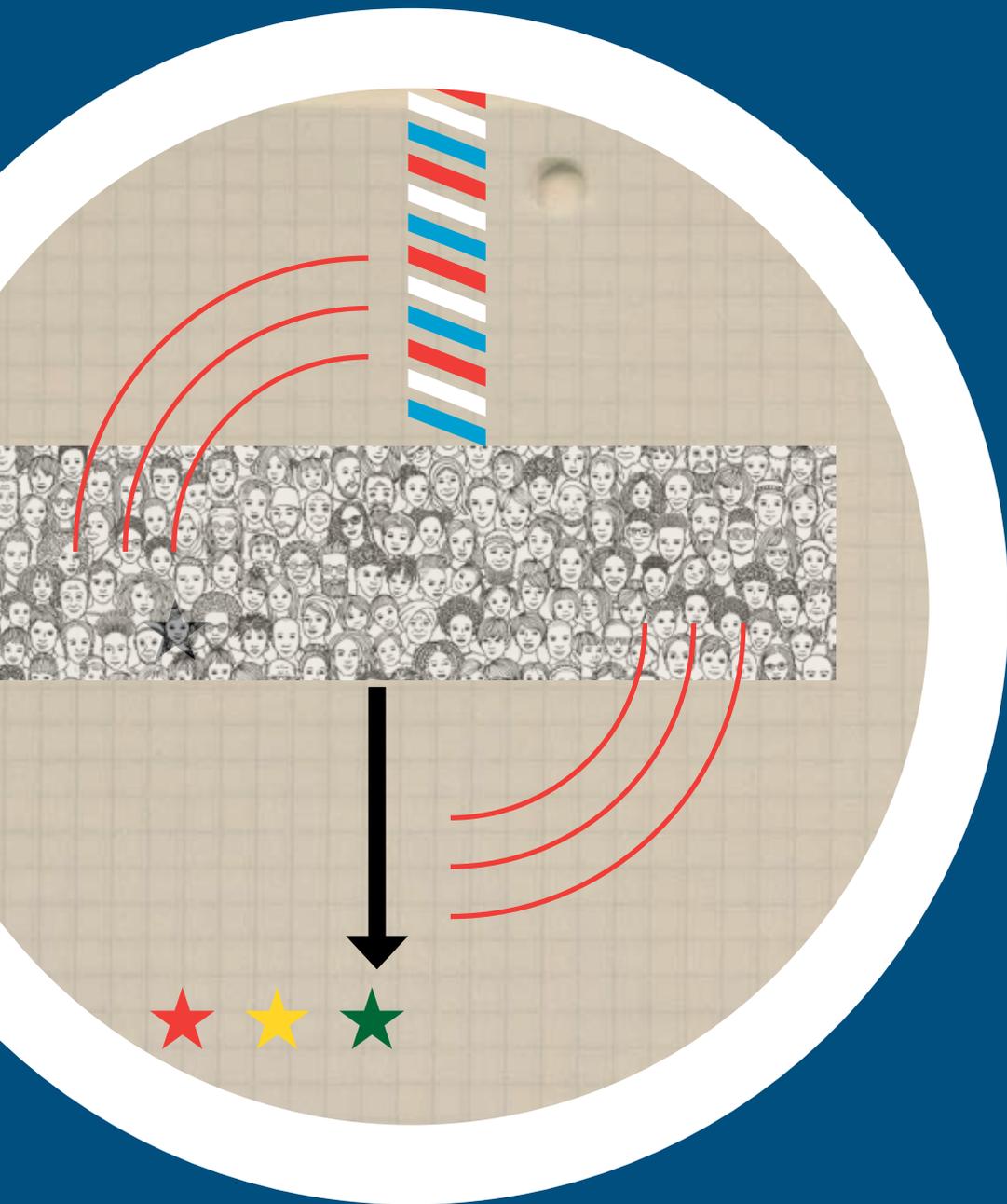
InterAction (*Innovative Finance for Development*, 2018) summarises the main findings of several impact evaluations on conditional cash transfer programmes as follows: *'There is evidence of these programmes increasing the use of social services – for example, increased school enrolment and attendance, fewer drop-outs, and higher use of health services. There is less but still some evidence of positive impacts on learning, reduced child mortality, reduced incidence of diseases like diabetes and breast cancer, and increases in adult work effort and increased investment in income-generating activities.'*

However, especially the long-term effects of unconditional cash transfers (both in terms of impact and financing) have not yet been sufficiently investigated. Critics fear that families will easily fall back into poverty in case of setbacks: if animals die due to drought, harvests fail or a family is affected by illness or divorce. Jeroen de Lange from 100WEEKS expects that out of the women who graduated, 80 percent will stay out of extreme poverty, and 20 percent, although better off, might not be able to maintain the living standard they achieved with the programme in the long run. According to him, training and coaching have proved crucial for the money transfer programme to actually 'serve as a trampoline out of poverty'. Next to cash and digital technology, human connections are crucial. These can be with a coach, a social worker or even better, with other members of a group or community.

With a view to the long-term sustainability of cash transfer programmes, it was suggested at the debate in the Partos Community of Practice that local governments might take over these programmes from development NGOs in the long run, paid for out of tax income. For those who find this hard to envisage, the day care subsidy, received by many parents in the Netherlands, is a great example of government-paid conditional cash transfers. Even unconditional cash transfers, in the form of social benefits, are very common!

Additional resources

- *Cash Transfers: What Does the Evidence Say?* Overseas Development Institute, 2016.
- Wetzels, Deborah. *Bolsa Familia: Brazil's Quiet Revolution*, The World Bank, November 4, 2013.
- *Conditional Cash Transfers: Reducing Present and Future Poverty*, The World Bank, 2016.
- *From Evidence to Action: The Story of Cash Transfers and Impact Evaluation in Sub-Saharan Africa* FAO/Unicef, Oxford University Press, 2016.
- *Myth-Busting? Confronting Six Common Perceptions about Unconditional Cash Transfers as a Poverty Reduction Strategy in Africa (factsheet)* Oxford Academic – The World Bank Research Observer, 2018.



Development impact bonds

'Costly, cumbersome – and good'

Social impact bonds are increasingly popular in the UK, the United States, and the Netherlands as well. The new (and controversial) social finance mechanism pays dividends to investors once a project meets its projected outcomes. So, is this performance-based investment instrument also suitable for financing development programmes and contributing to societal gains, while also offering financial returns?

'In my 22 years with the International Committee of the Red Cross, I do not recall such a challenging humanitarian landscape', Helen Alderson, head of ICRC's Mission in the UK and Ireland, writes in a recent article. With increased humanitarian need comes huge financial demand. To give an idea: the ICRC's field operations budget for 2018 (\$1.8 billion) is 80 per cent higher than the budget in 2010. Still, however, only 10 per cent of the 90 million people with physical disabilities who need a mobility device worldwide (many of them in conflict-affected areas) have access to adequate rehabilitation services. This leads to both

social and economic exclusion. 'We cannot only rely on our traditional donors to meet the funding demands', concludes Alderson.

ICRC's efforts to encourage social investment from the private sector resulted in the creation of the world's first Humanitarian Impact Bond. The 24 million euro of capital raised were used to build three new physical rehabilitation centres in the northern part of Nigeria, Mali and Democratic Republic of Congo, all countries which have been hit hard by conflict. Thousands of people stand to benefit. The payment-by-results programme also includes the necessary training for the new staff, as well as the testing and implementation of new efficiency initiatives.

'Social investors' take care of the initial payments. These are reinsurance company New Re, part of Munich Re Group, and others identified by co-sponsor Bank Lombard Odier, including foundations and family funds. At the end of a 5-year period (which started in 2017) the governments of Belgium, Switzerland, Italy, the UK and La Caixa Foundation – the outcome funders – will pay the ICRC according to the

Result-based approaches

results achieved. These funds will in turn be used to pay back the social investors, partially, in full or with an additional return.

The ICRC's reported efficiency in the three new centres will be verified by independent auditors. This efficiency – the ratio of how many people receive mobility devices per physical rehabilitation professional – will be compared to existing centres in Africa. If this is above expectations, the social investor will receive its initial investment plus an annual return. If the performance of the new centres is, however, below the benchmark, then it will lose a certain amount of the initial investment.

Instrument Social/development impact bonds

NGO roles Donor
Investor
Recipient
Provider of technical assistance
Intermediary

Objectives Improve efficiency/
value for money
Crowd in private sector

Feasibility – Key factors

- Extensive time and coordination required to structure
- Long time required to develop and adapt to new data and performance management systems
- High cost of measurement and verification
- Most suitable when there is some evidence behind an intervention but more room for experimentation or uncertainty about taking it to scale

Source: Innovative Finance for Development, InterAction, 2018

In a telephone interview, Tobias Epprecht, the head of ICRC's Humanitarian Impact Bond, says that the project is well on track. The construction of the three rehabilitation centres is in full swing. There is a lot of interest within his organisation to see how this first impact bond will work out. 'It is part of our overall objective to learn, and understand how this mechanism functions. Other projects like this are already being developed.'

Impact bonds, however 'are not the holy grail in finding new money', he emphasises: 'It's not a simple mechanism. It took us one year of serious work to put everything together. It was never intended to replace the regular funding.' But he is convinced of the added value of the instrument: 'It's a specific type of funding that has its value especially for more long term projects which are of interest to outcome funders.'

Win-win

The win-win situation is often cited as the greatest achievement of impact bonds. If it works out well, recipients and impact investors, as well as donors and implementing agencies, benefit from this approach. For the NGO, the big advantage is that the prefunding is paid by the investor. The investor, if everything goes according to plan, gets both a financial and a social return on his investment.

On the other hand, impact bonds tend to be highly complex financial and legal constructions, and therefore require a lot of time, effort and money to set up. Another danger that is frequently pointed out is that of establishing and measuring goals: how high or low should each organisation set its impact objectives, so as to ensure they are achievable? Moreover, how can they be verified? What can and what cannot be measured? And of course, there is always the ethical question: concerns are raised about introducing a private sector role in the delivery of public services.

Result-based approaches

Humanitarian, or development, impact bonds are based on the social impact bond (SIB) model. The first social impact bond was established by Social Finance UK in 2010, supported by the Rockefeller Foundation, and structured to reduce reoffending among inmates from Peterborough Prison. Many more followed. There are now over 150 social impact bonds in the UK, and there is also an umbrella SIB Fund. President Obama launched something similar in the US in the form of the Social Innovation Fund. That fund has since invested half a billion dollars of private money in disadvantaged neighbourhoods.

After the UK, the Netherlands is the leader in Europe, with a dozen social impact bonds. Most SIBs are at municipal level, and focus on the labour market. The most active investor is the ABN Amro Social Impact Fund, but there are also family equity funds involved in the social impact bonds.

Educate girls, and other bonds

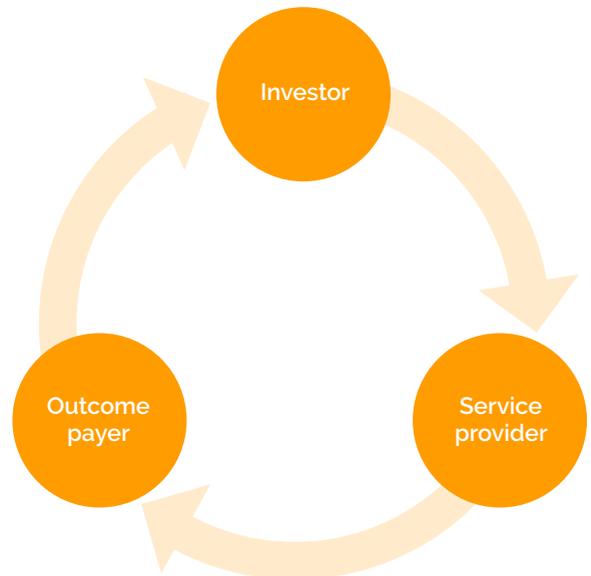
Based on the SIB model, a development impact bond creates a contract between private investors and donors or governments who have agreed upon a shared development goal. The concept is definitely becoming more common in the sector. There is, however, still more talk than concrete results. An example that has received a lot of attention is the world's first development impact bond in education, which has paid for girls' education in the northern Indian state of Rajasthan.

The Educate Girls development impact bond was a joint project between Educate Girls (service provider), the Children's Investment Fund Foundation (outcome payer), the UBS Optimus Foundation (investor), and an intermediary. In 2018, the final year of a three-year pilot project, the development impact bond exceeded agreed targets for the number of out-of-school

girls enrolled into primary education and the progress of girls and boys in English, Hindi and mathematics. So the investor recouped its initial investment plus returns. The total pay-out is being reinvested into Educate Girls and other UBS Optimus development programmes. 'Clever and complex', commented *The Economist* (July 12th 2018): 'Development-impact bonds are costly, cumbersome – and good.'

In short: this is how a development impact bond works

- After the project and targets have been defined, the **outcome funders** make a conditional pledge to pay for concrete results.
- On the basis of this pledge, **social investors** make their investments.
- This money enables the **service provider** to carry out the programme.
- Independent **auditors** verify the performance.
- At the end of the agreed period, the outcome funders pay the service provider according to the results achieved.



Result-based approaches

'It would be good if development impact bonds teach donors to give charities freer rein and to focus on outcomes.'

For Educate Girls, the process was as satisfying as the results. Instead of having to send tedious reports to a donor about how the money was spent, it could concentrate on solving problems. Creating the development-impact bond was, however, also complicated and time-consuming. Staff from several organisations spent months pinning down what Educate Girls would aim to achieve, how progress would be measured and what would be repaid.

Development-impact bonds will probably remain infrequent oddities in the aid landscape, The Economist concluded. *'Not only are they complex, ponderous and costly; they also offer small returns to investors. They are useful, even so. The problem with much aid (and social spending in general) is that inputs are scrutinised more closely than results. Experimenting during a project is hard or impossible. It would be good if development-impact bonds teach donors to give charities freer rein and to focus on outcomes. Rajasthan girls are not the only people with lessons to learn.'*

Another education bond was launched in 2018 by the British Asian Trust and (again) UBS Optimus Foundation. The bond of \$11 million is to invest in NGOs and social enterprises for improving the quality of education in India. The UK Department for International Development (DFID) is providing technical assistance to the programme.

The US Agency for International Development (USAid) has announced a health impact bond, aimed at reducing maternal and newborn deaths in India. Additionally, Social Finance (UK) launched what they call the world's first health and nutrition bond, working with Cameroonian partners. Another ongoing project in Africa is the Village Enterprise development impact bond, in which USAID and DFID are the outcome payers. The partnership, started in 2018, aims to impact the extreme poor in rural Uganda and Kenya by providing the resources needed to launch small businesses.

No blueprints

Not surprisingly, the countries that have the most experience with social impact bonds, are also frontrunners in the field of development impact bonds. DFID in the UK and USAid are active government players. In the Netherlands, minister Sigrid Kaag of Foreign Trade and Development Cooperation mentions development impact bonds in her policy document 'Investing in global prospects' as a promising innovation in financing development cooperation. However, concrete initiatives are still on the drawing board.

Within the Dutch NGO community, John Belt is one of the few people to have experience with development impact bonds. Before his present job as a global technical advisor on inclusive value chains at SNV Netherlands Development Organisation, Belt worked for the Royal Tropical Institute (KIT) and was involved in a develop-

Result-based approaches

ment impact bond in Peru. The project aimed to support farmers (members of the indigenous Asháninka people) in coffee and cacao production and sales. The Rainforest Foundation UK implemented the bond, the Common Fund for Commodities acted as outcome payer, while the Schmidt Family Foundation invested in the project. Belt acted as verifier on behalf of KIT.

'In contrast sometimes to other projects', he says with a smile, 'you can be sure that in the case of development impact bonds, your verification report will be read with a lot of attention.' Which is of course due to the fact that the outcome payment will be based on results achieved, which are substantiated in the verification report.

Looking back, he confirms that impact bonds are time-consuming efforts. This has to do with debate on how to measure results, as well as all kind of legal aspects. 'There are no blueprints. As a partnership, you have to develop it together. This makes it a difficult concept for funders, such as, for example the Dutch development bank FMO, which prefers to have ready-made investment proposals.'

Belt is currently looking into ways in which development impact bonds can be relevant for SNV. In his opinion though, the amount of attention being given to development impact bonds is rather excessive in relation to the actual number of projects implemented. This is undoubtedly due to the time consuming character of the bonds, but he also notices 'quite a bit of cold feet on the side of outcome payers. They find it scary not to know exactly how much projects will cost them. And it's also about long term projects. Ministries often find these difficult.'

At the same time, Belt says, the interesting thing about the mechanism is that the outcome payer gets what it wants. They do not

pay for the process, but for the outcome. While the service provider – once there is agreement on the results to be achieved – has a lot of freedom to organise this in the way that seems best to him. 'In the meantime, you don't have to go back to the donor, or fill in difficult log frames, or adjust the entire project to changing policies. These are certainly among the good things about it.'

Additional resources

- The Center for Global Development (CGD) hosts a working group and has publications on development impact bonds. With Social Finance UK it convened the Development Impact Bond Working Group and released a seminal report.
- Also very active in this field is Brookings Institution, with a database on the global impact bonds market, reports and a monthly snapshot.
- *'A Practitioner's Guide to Results-Based Financing: Getting to Impact*, Instiglio and World Vision, 2017.
- Gustafsson-Wright, Emily and Izzy Boggild-Jones. *'Paying for Social Outcomes: A Review of the Global Impact Bond Market in 2017'*, The Brookings Institution, January 17, 2018.
- *'Impact Bonds in Development Countries: Early Learnings from the Field'*, The Brookings Institution, 2017.
- *Social and development impact bonds (Results-Based Financing)*, UNDP.
- *Investing in Social Outcomes: Development Impact Bonds* Social Finance (UK), 2013.
- *Social Impact Bonds: Reflecting on Emerging Global Practice*, *The Philanthropist*, Kirsten Pue, February 2017.



Result-based finance

Ten dollars for a successful birth

Don't reward activities, reward results. Only then can you really be sure goals are realistic and will be reached. That's the basis of result-based financing. Cordaid and SNV have used the approach in health, energy and WASH. What are their experiences so far? What's the biggest difference from traditional financing?

An obvious thought is that result-based financing is instigated by donors. They usually want to be sure about what they get for their money. However, in the case of Cordaid this is not how things went. 'In 2001, the health system in Rwanda was in crisis,' Maarten Oranje, performance based financing expert at Cordaid explains. 'This made room for unorthodox methods. A couple of NGOs, among them Cordaid, experimented with performance based financing. That worked out well and was integrated into the national policy.'

It was also the basis for activities Cordaid nowadays carries out in Ethiopia, among other countries. Behind it is the belief that you increase the autonomy, sense of ownership and entrepreneurship of your partners with result-based financing. This then leads to a better use and higher quality of services, more reliable data and increased transparency and accountability.

Performance- and result-based financing

Performance- and result-based financing are often used interchangeably. Both are a form of output based financing, as opposed to input based. Payments are only made when the intended performances or results have been achieved. The two differ from input-based financing, under which payments are linked to the activity and to what has been produced in practice, regardless of whether this meets the intended performance or result.

How does it work? The Ethiopian project started with a few health centres in 2015 and now runs seven hospitals and some 88 health centres in the south and southwest of the country. They reach a total of 2.3 million beneficiaries. Apart from a traditional activity-based financing at beforehand, a result-based approach is being practiced here between Cordaid and its local partners. 'Results' in this case refer mainly to quantity, quality and patient satisfaction. If the quantified goals are not achieved, payments are not made.

Payments depend on what has been delivered and verified, which is not the same as what has been declared. Oranje explains: 'Declared results are the ones the health centres used to report to their government. These are no-

Result-based approaches

toriously unreliable, as they themselves know. It's partly due to the system, which rewards declared results, and partly because of errors, caused by the existing reporting pressure.'

Ten dollars

A key part of the Ethiopian project is the thorough verifying of the results. The verification is partly done by Cordaid itself and partly outsourced. Verifiers go to the health centres and examine their books, and local NGOs monitor the patient satisfaction. This is done by visiting patients, selected by sampling, in person and on a quarterly basis. The teams of verifiers rotate, to prevent them from becoming too close to patients and health centres. Sometimes, counter-verification takes place: then it's the verifiers themselves who are verified.

At the core of the result-based financing model of Cordaid is a set of indicators. 'The indicators must be representative,' Oranje says. 'This means: not too many, because then the centre loses focus. But the number of indicators should not be too few either, because then there is a tendency to focus on easily achievable results, like vaccination. This leads to perverse incentives which affect other areas of health care, because of moving people from one department to another, for example.'

The package of indicators is decided upon in a participatory process, involving local and national stakeholders, and should always reflect the local healthcare priorities. Indicators should not be too complicated, and there must be a direct link between results and payment. Oranje says: 'Ten dollars for a successful birth, for example, that works out fine.' Prenatal care should always be included, because this is a good indicator of the overall quality of the health system.

Moreover, it connects people to the health system: if you visit a health centre when you're pregnant, and you have been treated well, you will come back later.

In the beginning, the health centres were uneasy about the approach. 'They had to change attitude and overcome organisational challenges,' Oranje says. 'But after about six months, we noticed increased creativity and entrepreneurship. The centres realised that they were being assessed as a collective, not as individuals or departments. This led to departments helping each other. Even the cleaners felt more a part of the organisation.'

Small canteen

The results so far are impressive. When it comes to three elementary indicators – successful births, antenatal care visits and outpatient consultations – the graphics all show the same curves: more people are reached, community involvement grows and the gap between declared and verified results disappears over time. Moreover, the attitude of the workforce changed. 'They don't tamper with the facts anymore,' Oranje says. 'They admit that themselves. That's because they see the advantages of the new financing method.'

Every time Oranje visits Ethiopia, he finds surprises. At one of the health centres a small canteen was built for staff and patients, which has a uniting effect. Another health centre bought a glucometer in an attempt to fight non-communicable diseases like diabetes, which are frequently overlooked in low and middle income countries. This shows that the centres have become more proactive and entrepreneurial.

The Ethiopian government, sceptical at first, became more and more enthusiastic. Recently, it asked Cordaid to train the senior staff at its

Result-based approaches

health ministry in result-based financing. 'In five years time, this could become national policy in Ethiopia,' Oranje says. 'Although you never know how things run after elections.'

Irrigation systems

Another organisation with experience in result-based financing is SNV. It combines two sorts of experience: as an intermediary, and as a recipient. In 2014, SNV started a project in Tanzania aimed at providing off grid solar products and services, like panels, batteries and converters, to households around Lake Victoria. Energy companies didn't cover this particular part of the country. SNV assessed the needs and the financial capacity of the households involved. This showed that only 3.5 per cent of households owned solar panels and related products, but that 40 per cent wanted them and could afford them.

Instrument	Result-based financing
NGO role	Donor, intermediary and recipient
Objective	Improve efficiency Increase autonomy Sense of ownership and entrepreneurship Better (use of) services More transparency and accountability

Feasibility – Key factors

- Thorough and expensive checking mechanisms
 - Extensive support needed
 - Selecting the right indicators (not too many, not too few, no 'easy' ones).
-

SNV approached solar companies, offered them market intelligence information and a result-based incentive: an amount of money to be transferred after verifying the delivery of a certain number of systems, and the provision of warranty and after-sales services for those products. After a thorough application, due diligence and selection process, distributors of quality solar products got access to the incentives fund. The initiative was funded by the British *Department for International Development (DFID)*, and part of the global Energising Development (EnDev) programme.

'An internal debate was about the level of the fee', Martijn Veen, global energy sector coordinator at SNV, remembers. 'It should be high enough to be an incentive, but not too high, to avoid over-subsidization. The aim is to de-risk commercial investment, triggering companies to start doing business in areas where they otherwise would not go. With increasing maturity of the market and the businesses becoming viable, the incentive amount should be gradually reduced.'

For the first part of the project, 1 million euro was made available. Following successful performance of the fund, it was topped up twice. More than 390,000 people were reached. The incentive fees varied per delivery: they were lower for a panel feeding one lamp than for a solar home system powering multiple lights and other appliances. Eleven energy companies in the region participated.

Tax exemptions

Payments to the companies are only made after verification of the results. The energy companies provide SNV with names, telephone numbers and the location of their clients. SNV calls them and visits them at home, applying random samples for both, using independent verifiers to do so. Verifiers rotate, to prevent

'Grant contracts require a lot of time for budget administration conversations. In this case, we were focusing on the results, not on whether one budget line was over depleted and another under depleted.'

them from developing too strong ties with the companies and retailers involved, to avoid risks of collusion and fraud.

Results so far are encouraging, Veen says. 'The companies are very enthusiastic. It triggered them to amplify their business model to a bigger area and to establish a new logistical network. More important even is their sustained presence in the region. They will offer sales and after-sales services beyond the lifetime of the project.'

Result-based financing needs thorough market intelligence research and customised solutions, Veen says. 'Circumstances differ, so you always have to analyse the market first, and to adapt when the market changes.' A No Go is a too ambitious or even impossible goal. In a lot of cases, incentives alone will not be able to do the trick, and complementary support or enabling conditions are needed. In the case of the Lake Victoria project, it was helpful that the government paved the way with tax exemptions for the energy companies, as well as awareness raising efforts.

Pre-financing

SNV also experienced result-based financing in the role as a recipient. Together with Plan International and Oxfam Novib, it developed a WASH programme in Africa and Asia which aims at providing 11 million people with proper sanitation. The programme was funded by the DFID.

For the sustainability of WASH programmes, more than only hardware (like pipelines) is required. A frequent criticism is that this is not considered in result-based financing. 'In our view, results should include the proper use of WASH services as well as capacities in the broader WASH system,' Antoinette Kome, global WASH coordinator of SNV, says. '

This requires investments in local government capacity, training, and multi-stakeholder coordination, among other things.'

Max Foundation: monitoring 280,000 households

Verification can be done on a very large scale. This is demonstrated by the Max Foundation, which is fighting child mortality. The Max Healthy Village programme, which aims to reduce the stunting of children under five years old in southern Bangladesh, delivers verified results throughout all phases of implementation. Reported results are verified by phone calls to beneficiaries, based on a sample from 280,000 households. The call centres make 150 successful calls a day, 3,000 a month. Special software is used for the calling and the data collection. Data accuracy is reported to be above 95 per cent.

SNV defined indicators for WASH service delivery, like good governance, sludge management and quality of hygiene promotion, and made them part of the results to be measured,

Result-based approaches

verified and paid. These sustainability indicators proved to be the most complex to achieve.

A more practical challenge of implementing result-based financing is cash flow. The assumption is that the pre-financing is on the part of the implementing agency. If only the final results would be presented for payment, that would be a big burden. To manage the level of pre-investments, SNV defined different types of result packages. In the very beginning this was around key outputs, like capacity scores of the people trained, and achievement of the first 10 per cent of the total results. Whether or not this is possible, is a matter of negotiation with the donor. In SNV's case, it was part of the tender and accepted by the donor.

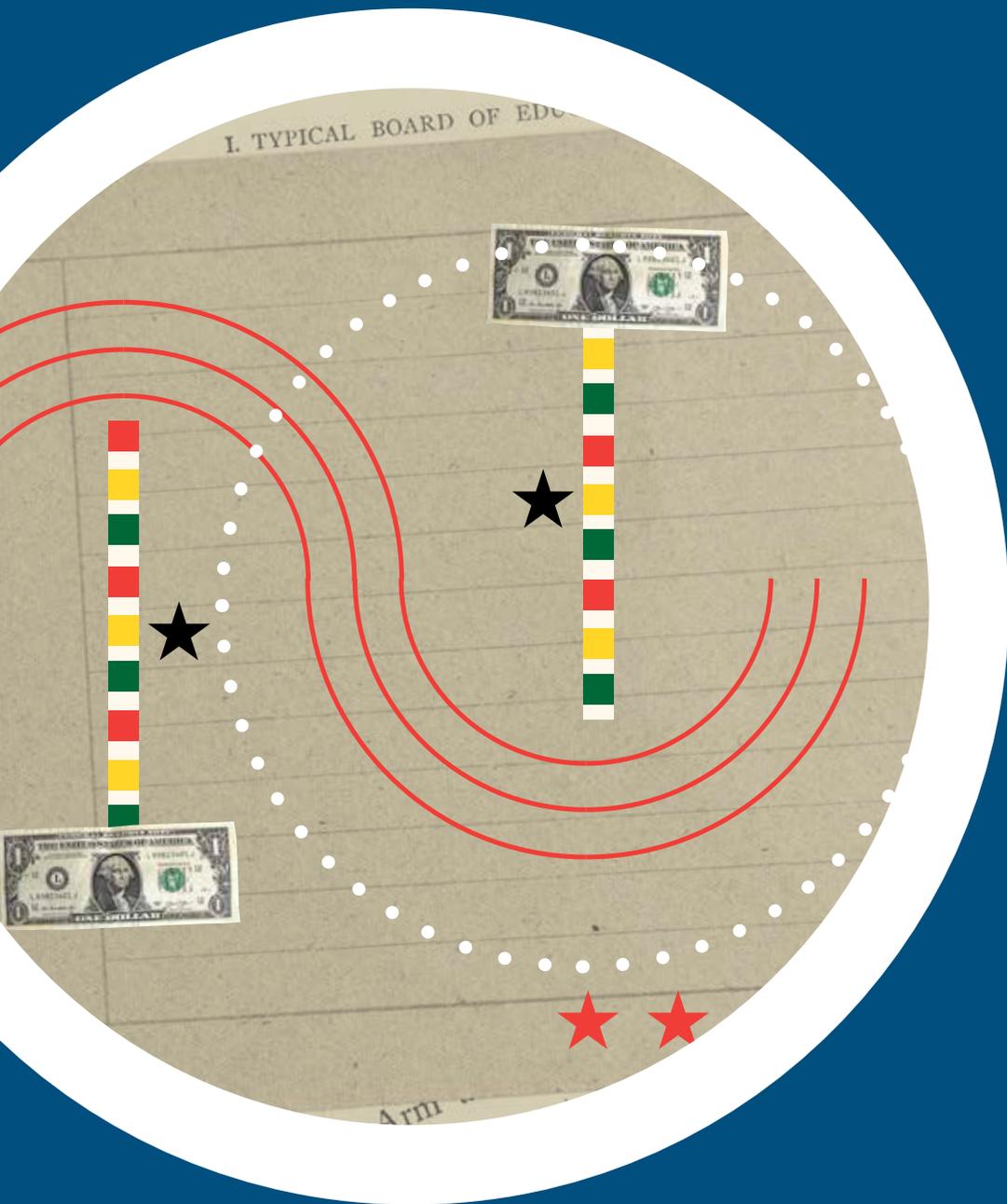
Earthquake

An advantage of result-based financing is that the focus is not on administrative procedures or the methodology of the intervention, Kome says. 'This is interesting, because most funders have limited knowledge of the situation on the ground but still want to be engaged in methodological discussions. That is complex sometimes, when the reality on the ground is different. Furthermore, grant contracts require a lot of time for budget administration conversations. In this case, we were focusing on the results, not on whether one budget line was over depleted and another under depleted.'

An overall problem is that of unforeseen circumstances: an earthquake or an epidemic can destroy the best results. Kome has a suggestion for this: a risk transfer matrix, which describes concrete situations and divides the risks between the parties involved.

Additional resources

- *Funding for Results: How Governments Can Pay for Outcome*. Beeckcenter Georgetown University, 2019
- *Results-Based Financing Approaches – What are they?* SIDA, 2015.



Business approaches

Social entrepreneurship

'A charity dollar lives one life, a social business dollar lives eternally'¹

A major disadvantage of the business models of NGOs is their financial dependency on external parties. This leads to unstable cash flows, and constitutes a frequent threat to the sustainability of these organisations. Why not upgrade this financial model to a circular design? With this approach, the money is reinvested and generates a larger social impact. A broader funding base not only makes an organisation more secure, but usually also more agile and responsive. Can an entrepreneurial approach however also ensure that no one is left behind?

There is only one right way to start this chapter, and that is with BRAC (the former Bangladesh Rural Advancement Committee, now Building Resources Across Communities). 'The most influential and impactful for-good organisation worldwide' (according to the independent media organisation NGO Advisor) prioritises sustainable funding sources and is largely self-financed. Currently, less than a quarter of

the expenditure of this NGO derives from donors, and a further decrease is foreseen in the coming years.

The main sources of income are the 17 social enterprises that support the BRAC programmes, in sectors as varied as textiles and seeds. These include Aarong, which harnesses the skills of 65,000 mainly female artisans through a vast network of rural production centres and independent producers, and BRAC Dairy, that ensures fair prices for over 50,000 farmers and is the third largest milk processor in the country. And there is also the commercial BRAC Bank, which operates bKash. By some measures, including the 25 million regular clients, bKash is now the largest mobile money platform in the world.

'The social entrepreneurship of BRAC stems from pure necessity', says Sylvia Borren, vice-chair of BRAC International (which is located in The Hague). 'The lack of facilities in rural areas makes it impossible for small farmers and producers to sell their products. BRAC's social enterprises help these one-person businesses to increase their production and efficiency.' The BRAC enterprises offer access to the market by setting up complete value chains. In this way, people can take control and become self-suffi-

¹ Quote by [Muhammad Yunus](#) (winner of the Nobel Peace Prize 2006), founder of the Grameen Bank, a microfinance organisation and community development bank in Bangladesh.

Business approaches

cient producers. 'At the same time, it generates a surplus income for BRAC. This is then used to expand microfinance, women's rights, education and health programmes.'

'The people behind BRAC have always understood that donor funding will not last forever' says Borren, who in the past, as general director at Oxfam Novib, worked intensively with BRAC. 'So a high level of self-sustainability in the organisation has always been a priority.' On the other hand, programmes such as the ultra-poor graduation programme will always require some level of subsidy. Also, most of BRAC's operations outside Bangladesh (the organisation is now active in over ten countries in Asia and Africa) still rely on donor contributions. 'But the idea behind all programmes is always to graduate the poorest people into sustainable livelihoods, instead of remaining reliant on others.'

Responsible business units

NGOs should not be dependent on donors and grants, says Melanie Rieback founder of the world's first non-profit computer security company *Radically Open Security*. In a lecture at the start of the Partos Community of Practice on Innovative Finance, she stressed the importance of working towards recurring cash streams and covering the organisation's own expenses from day one. She added that focusing on financially self-sustaining cash streams should also be a priority. This approach results in greater control, and more freedom with regard to funding structures that might otherwise hold them back. It also helps to make smarter decisions. 'Most importantly, it helps create something of true value and integrity.' How should this be done? By having a closer look at other financial constructions.

This is exactly what Western NGOs have been doing in recent years. The experiences of BRAC encouraged many to experiment with the concept of social business. Cordaid in the Netherlands, for example, began the process of transforming itself from a charity into a social enterprise in 2014. It set up result-responsible business units, and completely changed its culture of working. Of course, this ambition was first of all prompted by the overall reduction in foreign aid and development funds that is driving a need for diversity and additions to the existing funding base. But, as Henri van Eeghen, former chief operations officer of Cordaid has put it: 'When the majority of funding comes solely from a few government donors, organisations take the colours of a civil service authority – slow, bureaucratic and unresponsive.' Which is the opposite of an entrepreneurial spirit. And the CEO of a top five development NGO in the United Kingdom recently said: 'Giving people the skills and responsibility to run their own profit and loss creates better results and increases the satisfaction of most managers.'

Instrument

Social enterprises

NGO roles

Social entrepreneur
Partnering with social enterprises

Objectives

Breaking donor dependency, become more sustainable
Create income-generating activities, spend money in a smarter way

Feasibility – Key factors

- Lack of entrepreneurial spirit within most NGOs
 - Danger that dependency only shifts from donors to investors
 - Not everything is 'business-caseable'
-

Business approaches

So, NGOs can adopt a more entrepreneurial way of working and find out how far they can travel the road from being a traditionally funded development organisation towards a sustainable social enterprise. They can also create separate entities in Southern countries (whether or not together with a commercial enterprise), or start cooperation with existing social ventures. An example of the first option is Foundation Rural Energy Services (FRES), which is setting up utilities that operate in the public interest. The Foundation advances electrification in rural African areas that have no connection to the national electricity grid, by establishing small-scale, commercial electricity companies. The FRES companies provide households and small enterprises with access to electricity (preferably derived from solar energy), to meet the demand for proper lighting, radio and TV, charging cell phones, and a broad range of commercial activities.

Four of the five existing FRES companies (in Mali, Burkina Faso, Uganda and Guinea-Bissau) are fully owned by the Foundation. International energy company Vattenfall holds 80 percent of the shares of FRES South Africa, where the foundation is responsible for the management of the company.

FRES was founded by Dutch electricity company Nuon (now part of Vattenfall) in 2004, and is currently financed by the European Union, as well as other partners. 'FRES Netherlands provides the expertise and investments needed for the African businesses to start up and grow', explains managing director Coen de Ronde. 'Our ultimate goal is to create self-sufficient commercial companies.' The local companies work with a fee-for-service model under which customers pay a monthly fee for a chosen number of lamps and sockets. FRES companies install the needed hardware, and retain ownership.

'When the majority of funding comes solely from a few government donors, organisations take the colours of a civil service authority – slow, bureaucratic and unresponsive.'

'The goal of self-sufficiency has not yet been achieved at any of the companies' says De Ronde, 'but we are getting closer and closer'. Even if the companies have enough customers to stand on their own feet, FRES will continue to provide management support until the point where they can attract investments independently. 'That will be the moment to reconsider our support. But reaching that point will probably take another couple of years.' Which is mainly due to the fact that FRES has chosen to operate in the poorest rural areas, where many people find it hard to save even a small monthly amount. 'That is of course our main challenge. We now have a total of 20,000 customers. I am confident we will grow to 50,000 within a few years. 100,000 customers is possible too, if we succeed in finding additional sponsorship.'

Almost reaching the breakeven point

Finding seed capital is essential for creating a social business, and small organisations are dependent on foundations or impact investors. If they don't succeed, that could mean the end of the entire operation. ICS, an organisation based in Amersfoort, has been active in East

Business approaches

Africa for a long time. After a successful pilot in 2012, it was decided to set up a social enterprise on the spot, with a focus on the sale on credit of agricultural products such as seeds and fertilizer, and services to small farmers. The credit component was crucial for farmers, who often have no access to finance.

Buying on credit means, however, that the company has to pre-finance almost everything. ICS initially succeeded in attracting some seed money from the Rabo Foundation and Achmea Foundation. 'But working in the rural parts of Africa is extremely difficult', says Violanda de Man, manager Business Development & Innovation at ICS. 'Our clients are small, vulnerable and not easy to reach. And you are confronted with all kinds of other political and economic problems. Still, we came close. We succeeded in scaling the activities, and last year almost reached the breakeven point. But a setback in the first half of 2019 meant that risks became too big for potential investors, and we had to decide to finish the operation. The start-up losses finally killed us.'

Maybe ICS was just a little too early, De Man says. 'Working in rural areas in Africa remains difficult. But the infrastructure is improving, and ICT offers opportunities for more efficient business operations.' ICS is now investigating the possibilities of transferring the previous activities to another organisation.

Combining forces

Instead of creating its own social venture, an NGO can also decide to combine forces. This is what CARE Nederland is doing. The organisation has started to work with African Clean Energy (ACE), a Dutch-South African social enterprise that enables decentralised access to clean energy for rural households in sub-Saharan Africa. ACE has B Corp certification, and is committed to reinvesting its profits into its social mission.

ACE distributes the ACE 1, a state of the art clean cooking stove which is a solar-biomass hybrid as well as an energy source for mobile charging and lighting. CARE Nederland has recently facilitated the linking of the ACE cook stove to the Village Savings and Loan Associations of CARE Uganda. This was a low-key cooperation, to start with, says Richard Kooge, manager, Business Development & Innovation at CARE Nederland. 'We think ACE has a very good product for our target groups in Africa. They have a local sales team in Uganda, so we are now giving them the chance to demonstrate their cook stove in the savings & loan groups. And we discuss with them how to educate women in these groups to become entrepreneurs, and sell the ACE 1 themselves in their communities.'

The ambition is to scale the cooperation up by developing a business model, and to expand it to other African countries. The cooperation still has to prove itself, Kooge emphasizes: 'This is pioneering for us.' As an international NGO, CARE International regularly works with corporate foundations or multinationals such as Mars and Barclays Bank, and CARE Nederland has a partnership with the H&M Foundation. 'But a collaboration with a social enterprise is new. We are looking for a model that provides benefits for both parties.'



'Creating joint projects with social businesses is a new strategic direction. I really believe in it.'

Business approaches

This collaboration potentially goes much further than the regular model of accepting funding from large companies and setting up projects with it, says Kooge. 'Creating joint projects with social businesses is a new strategic direction. I really believe in it.'

CARE International has created, in a somewhat similar way to BRAC, a Social Ventures department. These are social enterprises that originate from former projects. Other projects are still undergoing this transformation process. CARE International also has an investment company together with other parties. CARE Enterprises can provide funding to social enterprises. Kooge says: 'It is a possibility that CARE International will invest in social enterprises such as ACE in the future. Again, the model still has to prove itself, but I think that is a logical idea.'

Additional resources

- *NGO and company partnerships for inclusive business, A practical guide which focuses on the 'how' of inclusive business partnerships.* Partos, June 2019.
- *From NGO to social business: why and how,* LinkedIn, 2015.



Social franchise

Like McDonald's, but with a social mission

Concluding a contract with partners, so that they can use your brand, thus increasing your outreach. It sounds simple, but the concept of social franchise is full of pitfalls. What to do with current partners that aren't used to paying for this kind of services, or don't have the money? How to match scale with quality? Does the franchise approach leave any room for innovation? After years of experiment and experience, RNW Media, Aflatoun International and Dance4Life have some of the answers.

'We asked ourselves: what are we good at? That's building digital communities for social change. We're *not* good at building organisations. That's why we shifted to a social franchise model', says Michele Ernsting, programme director at RNW Media.

At other social franchise organisations, such as Aflatoun and Dance4Life, they recognise this motive. But they add others as well. 'We noticed that organisations that succeeded in arranging their own funding were more enterprising, innovative and had a greater sense of ownership. They were better partners, who needed less support', says Koen Böhm, lead partner management at Dance4Life. '

This matches with our aspiration to be lean and mean and not grow too big. Social franchise is the perfect solution in this case.'

For Aflatoun International the main motive was the desire to have more outreach. Its target is to have reached 20 million beneficiaries by the end of 2020. This is more easily done in a franchise model than by expanding your own organisation, says Rediet Abiy, director of programmes at Aflatoun. An additional benefit is that when the number of franchisees grows, the annual fees you charge them can be reduced.

What is social franchise?

A social franchise is essentially the same as a commercial franchise like McDonald's but with a social mission. The franchisee ('the branch') concludes a contract with the franchisor, which obliges the franchisee to respect the basic concept and to pay for it. Fees can also be charged for services such as training and support. The common element is that there is a shared product and that the business model is replicable.

RNW Media, which arose from Radio Nederland Wereldomroep, wanted to have a bigger outreach using fewer resources with its Love

Business approaches

Matters programme. This programme, about love, sex and relations, was targeted at young people in India, but seemed replicable. When funding for India stopped, the decision was taken to continue in the form of a social franchise.

All three organisations first had partner relations with some of their franchisees. The transition towards a social franchise was toughest for these former partners. 'They experienced it as a big mental change', Abiy says. 'They kept asking questions like "why do we have to pay", "how much are you going to charge us" and "what for?" We underestimated the resistance the new model caused. A lesson learned is that you have to engage your partners more beforehand and that implementation must be flexible.'

Extra fee

The fiercest resistance came from the organisations that helped to develop the franchise model. RNW Media therefore waived the brand licensing fee for them. Some of the partners of Aflatoun refused to pay, because they felt they were owners of the concept. As a reaction, the organisation decided to charge them half of the annual fee in their first year of membership.

The level of the contribution was also subject to discussion. Aflatoun, which has many financially challenged partners, initially charged 50 euro a year. In the franchise model, this became 250 dollars for franchisees with an annual budget of less than 250,000 dollars, and going up for the ones with higher budgets. 'But it is always possible to negotiate, like in a good marriage', Abiy says smiling. 'And I say this from experience.'

Dance4Life charges 5,000 dollars a year for its support. The initial training and adaptation trajectory costs 20,000 dollars. Franchisees are supported in finding resources to cover the expenses. RNW Media normally charges 13,000 dollars a year but is willing to negotiate, depending on the organisation and the level of services to be exchanged.

The annual fee paid by the franchisees, is meant to compensate for the development of the programme curriculum. In the case of Aflatoun, the goal is instilling social and financial skills among school children. Dance4Life empowers young people to make safe sexual choices and Love Matters of RNW Media raises awareness of love, sex and relationships. Being a franchisee gives organisations the right to use the brand, which means offering the programme and using its name and logo. It also gives access to a manual, learning materials, shared track records, fundraising strategies and a network of like-minded organizations. The franchisees have to pay an extra fee for additional services such as training, monitoring and evaluation, and research.

Year of adaptation

A traditional problem in the franchise approach is how to match quality with scale. To put it simply: you want lots of franchisees because this enhances your outreach and income, but you don't want them to deliver bad quality, because this spoils your reputation. The solution lies in, among other things, a strict door policy. 'We always organise due diligence first', says Abiy. 'If organisations don't meet our criteria, we offer them capacity building. And if that doesn't work, we simply don't admit them.'

Another challenge is how to maintain quality once an organisation has become a franchisee. 'You want to control the quality of the output of the franchisee without limiting its freedom and

'If organisations pay for your services, they own them and care more about them, so the quality of the product improves.'

abilities too much', Böhm says. His experience is that you should not impose too many conditions: this causes irritation. The secret, in his opinion, lies in trust.

Aflatoun offers franchisees a year of adaptation. Ideally, after three to six months the franchisee is visited by Aflatoun staff to start a learning trajectory. But because of the high number of aspiring franchisees and the limited number of staff, this goal is not always met. Sometimes more experienced franchisees support newcomers in their region.

Dance4Life started its transition to a franchisor with a pilot in 2018. The new curriculum was tested in Ghana, Russia, Tanzania and Nepal. In this test phase, the franchisees paid no fees. Dance4Life paid for the training, the research and half of the costs of implementing the programmes. Participating organisations that had been involved in the strategic change, reacted enthusiastically, although the test sessions also demonstrated that more information on *sexual and reproductive health* had to be added to the curriculum. Another lesson was that the curriculum paid too much attention to the methodology and that more focus was needed on the content. The feedback of the participating youngsters was used to change the sessions.

Aflatoun first expected a drop in the number of its partners because of the financial impact of the franchiseeship. But the loss, estimated at fifty partners, was in fact limited to fifteen. Afterwards, the organisation managed to attract more partners with the franchise model.

Revenge porn

The franchise approach delivers both quantitative and qualitative advantages. Franchisees deliver a better product than partners, Abiy thinks. 'If organisations pay for your services, they own them and care more about them, so the quality of the product improves.' The result is more commitment and a better implementation of the programme, leading to a higher impact, he says.

In the case of Aflatoun, franchisees become more innovative when it comes to fundraising, to compensate for the higher annual fee. An evaluation by the Swiss Academy for Development in January 2019 suggested that Aflatoun should offer more support in this area. Dance4Life endorses this conclusion. 'You can't leave the fundraising fully to the franchisees', Böhm says. 'You have to set aside time for this as a franchisor.'

Programmatic innovativeness is, however, limited in the franchise model. 'In the past, partners could adapt their programmes easily, but as a franchisee, you are bound to a set of non-negotiables', Abiy explains. Aflatoun expects a minimum number of class hours from the franchisees, and regulates the balance between financial and social education, among other things. A non-negotiable of Dance4Life is that franchisees should not preach sexual abstinence. For RNW Media, a non-judgemental approach to sensitive topics such as abortion is included among the non-negotiables.

Business approaches

Instrument	Social franchise
NGO role	Sharing the brand and the curriculum and providing additional services on a commercial basis to partner organisations
Objective	Increase the impact of your organisations' mission

Feasibility – Key factors

- Psychological shift needed: partners have to pay for services that in the past were free of charge Franchisees need support in fundraising
 - Precarious balance between quality and scale.
-

Still, RNW Media is observing greater innovativeness. This concerns platform design, new content and format development, which are being decentralized in the case of Love Matters. 'India for example is experimenting with the use of virtual reality', says Michele Ernsting. 'They also made a brilliant video campaign about revenge porn which they shared with other franchisees. And Egypt developed a toolkit for young doctors which they can offer as a service to professional organisations. In my view, greater ownership of the model drives innovation.'

Unrestricted income

Apart from resistance within the franchisees, resistance also occurred in the franchise organisations themselves. A franchise means a different way of thinking and working and not all staff are ready for that. 'For some this shift was psychologically very hard,' Abiy says. 'People left our organisation for this reason. We did not intend that, but a positive side effect was that we attracted new blood.'

The nature of the organisation changes in the franchise model. The franchisor becomes more of a centre of expertise, where tools are developed and distributed. But the decentralizing of tasks also implicates a mental change. 'If your business model is complete control, don't do it,' Ernsting warns. 'But if it's learning, go ahead, although it doesn't always bring you what you expected and it costs a lot of time and energy.'

What does the franchise model mean financially? In the case of Aflatoun, the financial contribution of the franchisees is only one out of six income streams. 'We couldn't rely solely on our franchisees, because this would implicate too high a fee for them,' Abiy says. The contribution of the franchisees now covers about 12 per cent of Aflatoun's annual turnover. Aflatoun wants the percentage to be higher, without raising the annual fees; extra income should preferably come from delivering additional services.

Dance4Life currently has thirteen franchisees, and their payments now cover between 5 per cent and 10 per cent of annual turnover. This is expected to rise to 20 per cent. 'The annual fee we charge is in fact too low to cover our costs', Böhm explains. 'But a cost-effective fee would be too expensive for the organisations involved, so we need to find additional financing ourselves. In the end, this is not about cost cutting or earning money, but about having a bigger impact.'

In the case of RNW Media, the financial outcome is neutral at the moment. 'We don't cut costs, nor do we earn additional money', Ernsting says. 'But we do attract the interest of new funders.' The midterm motive of the Hilversum based organisation, however, is not merely financial: it is to generate more business and become less dependent on donor cycles. By developing more paid services, RNW Media also hopes to generate an additional source of unrestricted income for itself and its fran-

Business approaches

chisees. Another source of income for RNW Media lies in the collaboration with commercial partners. One franchisee is currently the chair of the Global Advisory Board of condom manufacturer Durex, another one is entering a corporate partnership with Durex.

Donors are showing interest in the model. 'Some already intended to develop more direct relations with our partner organisations and kept asking what our added value is', Böhm of Dance4Life says. 'We can explain that better now. New donors such as charity foundations emphasize the importance of networks and learning, so this suits them. But other donors still want us to be in charge.'

Donors of RNW Media were unfamiliar with the model, but generally appreciate this new way of working. 'Some even want to invest directly in the franchisees, which we make possible', Michele Ernsting says. 'What's also interesting for donors, is that the datasets in the social franchise model are all similar. It's not apples and oranges, so together we can say a lot about the needs of young people globally.'

Additional resources

- *Franchising a 'fireball'*, Stanford Social Innovation Review, Summer 2014.



Impact investments

Blended finance

Mobilising new capital for the SDGs

In blended finance approaches, multiple stakeholders come together to support projects through loans, grants, funds and crowdfunding actions, which are combined to realise long-term financial support. Solidaridad is one of the few Dutch NGOs that is experimenting with this approach, with the aim of supporting SMEs and smallholder farmers. Grant funding is used to attract further private sector investment in emerging markets. 'Our main goal is to help farmers build a credit history, and thus take the first steps towards the financial market.' How interesting is this approach to other NGO-backed projects?

'Let's be honest', says Tim Diphoorn, business development manager at Solidaridad. 'For NGOs it's difficult to provide loans. That also applies for us. We are not equipped for that. And we are also not going to jeopardize our not-for-profit ANBI-status.' So to be absolutely clear: Solidaridad will not grant loans to introduce climate-smart dairy farming in Tanzania. But PlusPlus will. Solidaridad is – together with ICCO Cooperation – a constituting member of this new NGO-backed crowdfunding platform. Also on board is Lendahand, the crowdfunding platform that has been providing loans to micro-investment institutions since several years. Another partner is Truvalu, which develops fair

agro and food chains by supporting innovative and scalable SMEs in emerging markets.

PlusPlus will officially be launched in early 2020. It will be making one of its first investments in a Tanzanian dairy project, with funding from the Achmea Foundation (a strategic partner of Solidaridad). The final target group is the smallholder dairy population of 6,000 farmers in Tanga Region. The project aims to double their milk production and income, and help them make their business more sustainable and climate smart by 2025. Also involved are two commercial players: the local market leader in dairy products and a commercial heifer breeding farm. The project will help to convert the current milk collection centres into profitable one-stop shops – offering a range of affordable services demanded by farmers, such as pilot commercial fodder production, and support to farm settlements – through a franchise model.

Bottlenecks

As an organisation that addresses bottlenecks in global value chains, Solidaridad works a lot with farmers, cooperatives and suppliers. Probably their most common feature is that many of them are looking for financial inputs for their businesses. The lack of access to finance is a key constraint for growth. Like most SMEs in developing economies, smallholder farmers

'The loans to the Tanzanian farmers will have a higher risk than commercial parties or development banks are prepared to accept. We accept that probably not all loans will be repaid in full.'

are less likely to be able to obtain bank loans than large firms. 'The local banking system is often not keen on smaller loans. And there is no way these farmers can offer a 100 percent collateral', says Lars van Doremalen, impact investor at Solidaridad. 'So even if they can get credit, it is at very high interest rates. But it's hard to run an agricultural business if you pay 30 percent interest, or more.'

Solidaridad has been exploring which role it could play in this investment process for some time already. In addition, it is also exploring the possibility of commercializing its services (as already done, for example, by some Red Cross organisations). The concept of blended finance that will be tested in the Tanzanian Dairy 2025 project has its roots in an earlier feasibility study in Ethiopia together with the World Bank, which also aimed to develop a climate-smart dairy sector.

According to Van Doremalen, this project encountered problems with the long-term business model. 'So, for our project in Tanzania, we therefore started to think more explicitly about financing. And because the Achmea Founda-

tion indicated that they were open to this, we investigated how we could work in a blended construction. We do not only use grants that help with the initial set-up, but also loans that cover a longer term than the project period. This should guarantee long-term impact. The idea is that these loans will be taken over by commercial parties in the long term, so that work can continue after the project has been completed.' The private sector partners in Tanzania also find this an interesting construction. They are the main recipients of the credit. 'So with these different partners we can really try this approach.'

This is a fairly new approach for Dutch NGOs. 'It's about working with different sources of financing right from the start', says Van Doremalen. 'There are of course some examples in the microfinance sphere, but doing this with SMEs is new.' In the past, both Cordaid and Hivos have set up investment funds together with banks. ICCO also has experience in boosting business activity and establishing funds. 'At Solidaridad we have learned a lot from these accumulated experiences, but we've also seen that these funds often operate quite separately from the organizations' own programmes. That is a disadvantage, in our opinion. The lesson we learned is that we want to develop activities that remain very close to our own programming. It's about intertwining our own programmes with the blending of finance.'

The loans to the Tanzanian farmers will have a higher risk than commercial parties or development banks are prepared to accept. 'We accept that probably not all loans will be repaid in full', says Van Doremalen. 'The main thing is that farmers build a credit history, and thus take the first steps towards the financial market.'

Instrument	Concessional loans
NGO Roles	Investor Recipient Intermediary Provider of technical assistance Advocate/convener
Objective	Crowd in private sector

Feasibility – Key Factors

- Risky if there is uncertainty concerning long-term revenue and ability to pay
- Due diligence can be costly (for investors)
Term sheet templates available but takes time to agree on terms

Source: *Innovative Finance for Development, InterAction, 2018*

The way to go

A generally accepted definition of blended finance is: 'The use of catalytic capital from public or philanthropic sources to increase private sector investment in developing countries and sustainable development.' It is nowadays seen as a critical approach to mobilizing new sources of capital for the Sustainable Development Goals (SDGs) under the 2030 UN Agenda for Sustainable Development. To achieve these 17 development goals by 2030, a significant scale-up of investment is required. According to the UN, the total financing needed is nearly \$4 trillion annually; with the current levels of development financing there is an estimated \$2.5 trillion funding gap per annum. Deploying public funds to attract private investment is at least part of the solution, according to the Third International Conference on Financing for Development in 2015 in Addis Ababa. Since then, blended finance has been highly aligned with goals such as Decent Work and Economic Growth (Goal 8) and Climate Action (Goal 13).

According to Convergence, the Global Network for Blended Finance, contributing towards achieving the SDGs should be one of the three signature characteristics of blended finance transactions. However, not every participant needs to have that development objective. Private investors in a blended finance structure may simply be seeking a market-rate financial return. Another defining characteristic is that, overall, the transaction expects to yield a positive financial return – different investors in a blended finance structure will, however, have different return expectations, ranging from concessional to market-rate. A third characteristic is that the public and/or philanthropic parties are catalytic: their participation should improve the risk/return profile of the transaction in order to attract participation from the private sector.

Dutch financial institutions are quite active in this field: the Netherlands development bank FMO is among the most active public investors with a commercial development mandate in blended finance. The DOEN Foundation plays a major role as a philanthropic investor in blended finance (together with, among others, the Bill & Melinda Gates Foundation, Omidyar Network and Shell Foundation).

The Dutch government is also a strong supporter of the approach. In her policy document 'Investing in global prospects' minister Sigrid Kaag at the Ministry of Foreign Trade and Development Cooperation states there is an urgent need for developing new forms of innovative financing. *'Private investors will only invest in developing countries if the risk is acceptable in relation to the perceived return. This is a particular challenge in low-income countries, unstable regions and countries with debt problems.'*

'There is no way these farmers can offer a 100 percent collateral. So even if they can get a credit, it is at very high interest rates. But it's hard to run an agricultural business if you pay 30 percent interest, or more.'

To improve the balance between risk and return, the government is making use of various forms of blended finance. We are doing this together with national and international financial institutions, private parties, multilateral partnerships and Western donors.'

No NGOs were mentioned here, but Diphoom sees their role growing. 'The new Dutch Fund for Climate and Development is open to NGOs, and will be a revolving fund explicitly aiming at blended finance solutions. The SDG Partnership Facility of RVO also offers opportunities in that direction.'

No alternative

At Solidaridad there is the conviction that the chosen path is the best way forward. Blended finance constructions could also offer opportunities for many other projects. A hard condition is that of enthusiastic donors who are open for these kind of constructions. 'That is the bottleneck', says Van Doremalen. 'The capital available for blended constructions is very limited, which means there is hardly any funding available to make the first step from grants to loans. That is why we created our own platform. There is simply no alternative.' Another problem is that impact investors often

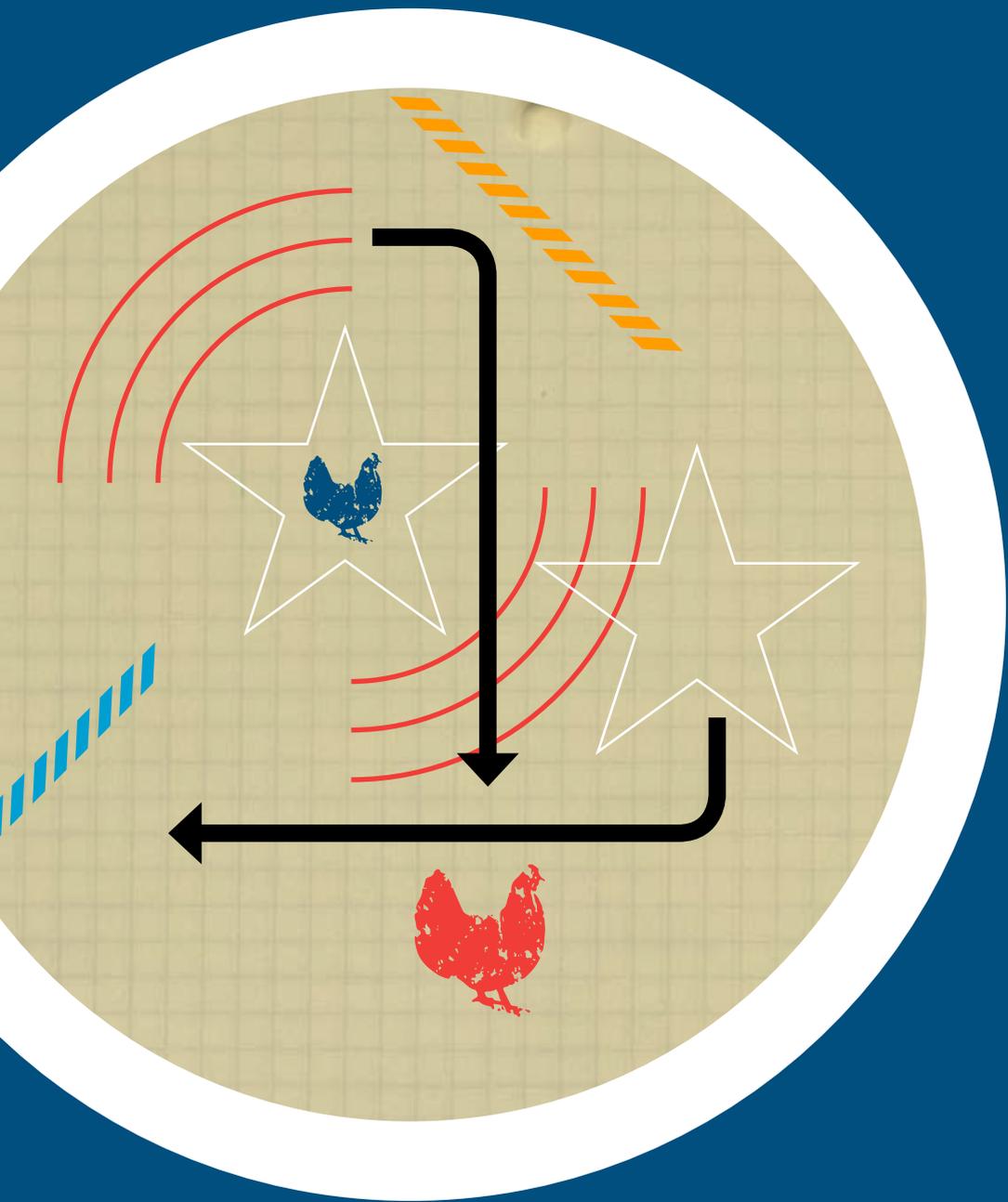
only have very limited budgets available for technical assistance, amounting to none before the investment, and no more than 5 or 10 percent afterwards. 'From the investor's point of view that makes sense. But for this target group of farmers with no credit experience, it is completely inadequate. In our Dairy 2025 programme, soft loans only account for 25 percent of the total budget. That makes it quite unique.'

Van Doremalen would like to see FMO, as well as other impact investors, set up funds that focus on this type of investment. 'Funds that accept that you need at least 30 percent technical assistance or grants to cover 70 percent of your investment. That is now a binary area, with most donors and investors providing either grants or loans. We would like to see more options there.' For the time being, PlusPlus hopes to cover part of this gap. The intention is that the platform builds up funds through crowdfunding, from which loans can be granted to SMEs: companies that need somewhere between 10,000 euro and a maximum of one million. The focus will be on rural areas.

Asked for lessons learned so far, Diphoom says the limited period of a year in which this approach has now been tested is too short for that. 'What we already do know, however, is that it takes a lot of time and resources to issue a loan, and then properly monitor it.' Van Doremalen adds that the most important thing about blended finance is the mix of public and private money, so that it is not limited to an institutional level. 'The implementation is crucial. That is what we are now doing with the Achmea Foundation and dairy producer Tanga Fresh in Tanzania, with the specific aim of boosting SMEs and smallholder farmers. We want to set an example for that approach, with the intention of creating the step towards impact investing. That is how these two ultimately connect.'

Additional resources

- *Innovative Financing for Development: Scalable Business Models that Produce Economic, Social and Environmental Outcomes*. Dalberg Global Development Advisors, 2014.
- *The State of Blended Finance 2018*. OECD/GIZ Background document. Convergence.
- *Billions to Trillions? Issues on the Role of Development Banks in Mobilizing Private Finance*. Center for Global Development, November 2017.



Impact investing

Balancing heart and head

Taking risk, looking at the long term, requiring return on capital: impact investing is a different game than providing grants. Who does it serve, and how? How does it differ from ordinary banking? What kind of impact is being pursued? And, most important: can impact investing be done by an NGO or should this be left to bankers?

Impact investing by Dutch NGOs is not a new approach. Cordaid, for example, adopted the approach in 1998 in an attempt to be more entrepreneurial. The Dutch government in those days made room for more risky business in its Medefinancieringsstelsel (MFS), the co-financing system for development cooperation. But, to put it mildly, this was not a success. 'Cordaid and other NGOs lost a lot of money,' says Hann Verheijen, managing director of Cordaid Investment Management. 'It taught us a very painful lesson: you should not only act from the heart when investing. It requires a business-like mind-set. Head and heart have to be in balance. So, managing investments is quite different from managing grant programs.'

Many millions later, Cordaid is still trying to make the world a little bit better through impact investing. Also ICCO (through C4D), Oxfam Novib (through Triple Jump), Mercy Corps (through Mercy Corps Social Venture Fund) and

other NGOs invest in impact. Their models vary slightly: ICCO and Oxfam Novib have put their investment activities at a distance, whereas Cordaid and Mercy Corps remain more closely engaged, a difference in approach that shall be discussed later in this chapter.

What is impact investing?

According to the Global Impact Investing Network, impact investments are meant to generate positive, measurable social and environmental impact alongside a financial return. Funds receive their capital from governments, NGOs, private foundations and private investors. They typically focus on a region or economic sector. The target financial return varies from below market rate to market-rate. Impact-first funds typically take risks that no other investor is willing to take. They provide investments of between 50,000 to 3 million euro.

Impact investment funds basically target small and medium sized enterprises (SMEs) in low and middle income countries. This group is usually called 'the missing middle'. While in developed countries, SMEs are the biggest group of companies, in low and middle income countries they are the smallest. This is mainly due to the lack of financing. Donors and funders have

'Managing investments is quite different from managing grant programs. It requires a business-like mind-set. Head and heart have to be in balance.'

long forgotten SMEs in these countries. They initially targeted microenterprises, serving them through microfinancing, and have only recently turned their attention to SMEs.

Most impact investment funds invest directly in SME's and indirectly in microenterprises. In the case of indirect investments, the funds invest for example in financial service providers or other funds in low and middle income countries which serve local end-clients. In this way, they save management costs and take advantage of the local roots of their intermediaries. The Mercy Corps Social Venture Fund invests in Vasham, a social enterprise that provides Indonesian smallholder farmers with financing, expertise and market linkages.

Chicken farms

Cordaid Investment Management (CIM) is an example of an investment fund that is closely linked to an NGO. Cordaid is the only shareholder of CIM and its office is in the same building. CIM manages the investment money of Cordaid. A management contract between Cordaid and CIM defines the mandate of the fund. CIM is, in brief, supposed to invest as much as possible in fragile contexts, provided that the capital is preserved. Currently, more than half of the money is invested in fragile states such as Mali, Sierra Leone and the Democratic Republic of Congo, the rest in emerging economies such as Kenya and Vietnam.

A particular goal of CIM is to be the first international lender of the investee. 'In about half of our investments, this is indeed the case,' says Verheijen. The aim is to have a catalytic effect. This means that other investors come on board once CIM has provided a loan, enabling an investee to scale up.

The average transaction size of CIM is between 450,000 and 800,000 euro. When it comes to SMEs, the fund is 'sector agnostic', Verheijen says. He admits that this is not ideal, because focus on a certain sector allows the building of know-how, expertise and a network. 'But focusing on specific sectors is impossible in fragile states. In Sierra Leone, for example, only two or three SMEs are active in cocoa production, so we have to include enterprises such as hotels and chicken farms.'

Road signs

But when it comes to impact, there is indeed focus. CIM concentrates on the contribution companies make to Sustainable Development Goal 8: Sustainable economic growth and decent work for all. Apart from qualitative criteria (does the company employ vulnerable

Impact investments

people?) quantitative criteria are used: one job should be created for every 25,000 euro disbursed. In the case of a juice producer in Sierra Leone, which provides work for disabled people, it is simple: they match CIM's criteria. But what in the case of a producer of road signs, which indeed was a candidate investee? 'We have a decision tree for that', Verheijen points out. 'We aim to invest in social enterprises, but there are rather few of them in our target fragile countries. So then we look at the number of jobs the company is creating. In the case of the road sign company this was quite a lot. Besides, road signs mean safety, so in this case we are contributing to a safer world as well.'

Sometimes CIM imposes conditions on an investee. It urged a nail producer to operate more sustainably, by treating waste water, among other things. Technical assistance is offered for this and for other purposes, such as increasing market access and scaling up. This technical assistance is mostly implemented by local partners that belong to the Cordaid network.

Most of the companies CIM invests in are managed by people from the global North or local people that have been educated there. 'Unfortunately, it is a harsh reality that these people are most of the time at the basis of promising enterprises', Verheijen says. 'We would like to also invest in locally run companies, but up till now this is hardly possible.' Cordaid is working on this by offering resilient business development services to local enterprises. 'We would like to cooperate with them, but these companies are generally too small for us.'

Tough team mates

The candidate investees and their clients are always visited. Leadership is crucial, Verheijen believes. 'Do you think he or she can do the job? What are the risks and can they be mitigated? What about the cash-flow? Is there any strong financial collateral?'

The latter is often not the case and CIM accepts that, just as it accepts unforeseen circumstances. 'In 2014, when ebola broke out in Sierra Leone, we had to waive interest payments because of that. You can't foresee something like that. In the case of bad luck, you should react with compassion, in the case of misbehaviour you have to intervene firmly.'

Instrument	Impact investing
NGO role	Investor, donor, recipient, intermediary, provider of technical assistance
Objective	Crowd in new players Increase revenue Enlarge outreach Support sustainable development initiatives

Feasibility – Key factors

- Business-like mind-set and skills required
- Long lead time (especially for first-time funds)
- High costs (management fees).

CIM has an internal structure aimed at preventing failure. 'Our blind spot is that we are too optimistic', Verheijen says. 'That's inherent in social investors. Another danger, especially in this impact-first sector, is that we let the heart prevail over the head. That's why we employ risk officers. They are our tough team mates, whose task it is to raise the objections. I appointed them because I am convinced that you

Impact investments

need checks and balances. The funny thing is that our investment managers gradually began to like them. They now take the initiative to ask the risk officers for their opinion. Their perception of them changed drastically.'

The danger Verheijen mentions, that the heart prevails over the head, is for Mark Joenje the main reason to operate at a distance from an NGO. Joenje runs the investment fund manager C4D Partners, which arose from ICCO Investments, where he had also been in charge. If he had known beforehand how it would be to invest under the wings of an NGO, he would probably not have accepted the job, he says. 'An NGO is simply not made for investments. Its employees have a different mind-set and don't understand what you are doing, so you are in a constant debate. They tend to accept that targets are not being achieved, because they feel sympathy for an enterprise. But the result of that is bankruptcy!'

NGOs are better putting their efforts into business development, Joenje says. 'Supporting farmers with post-harvest activities, for example. That's a role fitting for an NGO. But don't act as an investor.'

Organic farming

C4D Partners received 10 million dollar from ICCO for its new C4D Asia Fund and managed to attract 20 million more. It started investing in 2018 and operates in sustainable energy, agriculture and health, among other things. Just like CIM, C4D focuses on creating jobs. A good example of an investee of C4D is Mirakle Couriers in India, which employs low-income deaf adults, and has Amazon.com among its customers.

The CFO of ICCO is a member of C4D's advisory committee. They meet every quarter. The management contract limits investments in one company to 4 million euro. ICCO is providing a first loss guarantee to the other investors in the fund. 'That lowers the risk for other investors', Joenje says. 'This kind of support is important in a market segment that is as risky as ours.'

The average investment of C4D is 500,000 euro. With this, farmers can, for example, gain access to export markets. 'But we are more than a financier', says Joenje. C4D also provides technical assistance. Farmers in the Philippines who want to switch to organic farming get support from professionals, for example. Local representatives of C4D also participate in the board of investees. Sometimes C4D invests in an enterprise that is an ICCO partner, but this doesn't happen very often. 'Unfortunately, the worlds of grants and investments are still quite separate, but we continue striving to join forces.'

Once a year, C4D visits Asia with the investors in the fund. Among them are a Finnish NGO and the Dutch and Australian governments. 'They accept that enthusiastically', Joenje says. 'This year, also a potential investor is travelling with us.'

Powerful combination

The secret of a good investment fund is a good team, Joenje says. 'You need well trained local staff. You can't do it all alone, flying from here to there all the time. And you have to have a feeling for people and teams. This is not just a financial party, it is also about people. I am not a number cruncher myself.'

In three to four years' time, he expects to have invested almost all the available money. Then the first departures of investees will begin. 'Af-

Impact investments

ter that, I want to start a new fund, with more capital, about 60 million euro. Maybe it will be two funds, one for India and one for Indonesia and the Philippines, our target countries. ICCO will be participating in our current fund, because the fund lifetime is for ten years. Only if someone buys their shares they can step out along the way, but I don't think this will happen.'

CIM also believes in upscaling. A promising new way of increasing its social impact is to work together with third parties. Verheijen gives an example: 'In Myanmar the financial needs of investees are bigger than we can cover, so we asked other funds to join us. We do the due diligence for these funds and they accept it, because they trust us. That is a way of working that we could practice more often.'

Verheijen doesn't want to increase the distance to his main investor, Cordaid. 'I would regret it if the line would be cut completely. I prefer a situation of co-ownership. A prerequisite is that your owner has expertise in the field of investing, and that is the case. Assuming you have good agreements, you can then combine the head and the heart. That is a very powerful combination.'

Additional resources

- *From the Margins to the Mainstream: Assessment of the Impact Investment Sector and Opportunities to Engage Mainstream Investors*. World Economic Forum, 2013.



Other approaches

Local fundraising

Shifting the power to the South

The flow of aid money from the global North to the global South confirms and strengthens a relationship of dependence. Local fundraising changes this relationship and contributes to the self-confidence and autonomy of the South. But how should this be organised? Do 'northern' NGOs have a role in this process and if so, what is it?

Sarah Anyika, a young Kenyan girl, noticed that girls at her school didn't attend classes when they had their period. The reason was that the girls couldn't afford sanitary towels. She organised a local fundraising campaign and managed to collect the equivalent of 4,000 dollars. This made it possible to purchase sanitary towels and to start producing reusable pads. Sarah was trained by the Change the Game Academy, a programme powered by the Hilversum based NGO Wilde Ganzen, in cooperation with the Kenya Community Development Foundation (KCDF), Coordenadoria Ecumênica de Serviço Brazil (CESE) and the Smile Foundation India.

Wilde Ganzen Foundation (Wild Geese, named after a parable of the Norwegian philosopher Søren Kierkegaard) strives to empower local communities in the global South. The aim is to make them more independent from 'northern' funding and help them develop in a bottom-up

manner. In 2016, Wilde Ganzen started the Change the Game Academy. Its two key pillars are strengthening the ability to fundraise locally, and having a stronger voice with local government and other actors.

Blind spot

Corine Aartman of Wilde Ganzen explains: '90 per cent of how development funding is spent is determined by organisations in the global North. A lot of development cooperation is donor driven, so the current situation is not a level playing field. We want to actively contribute to shifting the power to the South, and in particular to the local level.'

Fundraising at community level has long been a blind spot, says Aartman. Traditional development cooperation didn't pay much attention to this. Wilde Ganzen therefore started the Change the Game Academy, which provides free online courses on local fundraising and mobilising support. The latter focuses on lobbying, advocacy, claiming rights, collaborating with local governments and building alliances. The courses are offered in English, French, Spanish and Portuguese. Anybody with access to a computer can join.

Other approaches

After concluding the courses, trainees have their own fundraising or advocacy action plan and budget, and can immediately start implementation. The communities are expected to raise half of the required budget themselves. Wilde Ganzen approves about 300 projects a year and has, at the moment, about a thousand projects in its portfolio.

'We want to actively contribute to shifting the power to the South, and in particular to the local level.'

Football match

A common problem is that communities lack computers, and that the internet is not available or is unstable. For this reason, Wilde Ganzen is making the courses accessible via cell phones. As of 2020, this will be the case for part of the course content.

In addition to the online courses, classroom based training courses are being organised in twelve countries. In these courses, local trainers coach community members to find answers to questions such as who to approach and which methods to use. The trainers contextualise the courses to the local circumstances. After the training, personal coaching is provided for six months. This is done on location as well as via telephone and email.

The experience so far is that local fundraising strengthens the self-confidence of communities. 'Our partner in Burkina Faso, ABF, grabbed the project out of our hands', remembers Nienke Nuijens of Wilde Ganzen. 'They had zero money but lots of motivation and showed great creativity.' The fundraising campaigns also tend to strengthen the ties between community members. Furthermore, successful campaigns have what Aartman and Nuijens call 'a viral effect': they encourage others to organise campaigns as well.

Local fundraising can be done anywhere. Experience so far demonstrates that even poorer communities have assets and can contribute time, labour and the organising of fundraising to invest in projects such as extending a school building. The existence of a middle class can contribute to the success of a campaign, but, interestingly enough, it is often the community itself that raises the major part of the funding.

In 80 percent of the cases that are presented on the Academy's website local fundraising starts with a fundraising event. This can be, for example, a football match which attracts spectators from a wide area. The spectators can be asked for a fee, or a lottery can be organised during the event. To minimise the costs, local companies can be asked to cater at the event for free. The local church or another institution can provide tents and chairs, students can take care of valet parking and other services. Another successful approach is to organise a dinner. Even people living in the diaspora can be asked to contribute to a local campaign in their country of origin.

Strategic dot

But local fundraising cannot be done overnight. It requires a mind-shift by all the parties involved. 'Our local partner organisations are in fact initiators instead of recipients, and must be seen as such,' Aartman explains. This also implies a different kind of collaboration from the northern partners involved. Instead of a guiding role, a kind of 'let go' approach is needed.

The sums that are raised often amount to a couple of thousand dollars, but some organisations have managed to raise 50,000 dollars or more in their first fundraiser. The strength of the concept lies in its local roots, so international NGOs should be careful when engaging in local fundraising. 'If it is in support of, or in collaboration with local organisations, it can work well,' Aartman says. 'But INGOs can also hinder local fundraising initiatives by absorbing the few available local fundraising staff.'

The programme is rigorously monitored. Aartman says: 'We see an overall trend that the percentage of organisations whose main source of income is local, is growing. In Burkina Faso, the percentage among the trained organisations grew from 16 per cent to 36 and in Brazil it went up from 32 per cent to 57. We are seeing an upward trend in general, which is quite encouraging.'

Instrument	Local fundraising
NGO role	Helping to unlock local knowledge and skills
Objective	Increase independence and local ownership

Feasibility – Key Factors

- Thorough training and coaching needed
 - Long implementation time
 - Need to manage expectations (yields are generally low)
 - Prerequisite is mind-shift of all parties involved: partners become initiators instead of recipients
 - NGOs need 'let go' approach.
-

Aartman and Nuijens consider their approach a success, which leads to the question: will local fundraising make Wilde Ganzen obsolete in the end? 'That's a very good question,' Aartman answers. 'I think this will not be the case next year, but it is indeed our strategic dot on the horizon.'

Nuijens: 'We have deadlines by when each country should be financially independent. The deadlines vary, from five to ten years, sometimes a bit more. This is longer than we expected, but we are clearly going in the right direction.'

Change the Game Academy is not a reciprocal programme. Still, the question emerges: if the Wilde Ganzen employees lose their jobs, do they expect to be financially supported by their partners in the global south? Nuijens smiles: 'That's a nice idea!'

Booster

An even more explicit attempt to disappear from the stage is being performed by the Karuna Foundation. This organisation, with the ambition to improve the lives of children and adults with disabilities in rural communities in Nepal, has a clear exit strategy. It firmly stated from the start that in 2025 its existence will end. Municipalities and provinces in Nepal are expected to have taken over the jointly established programmes by then.

'Our exit strategy is in line with my vision on development cooperation,' says Annet van den Hoek, director of the KarunaNL Foundation. 'External parties from the global north and their money should act as a booster, to strengthen current government institutions and create a structure that can be supported locally. What we do is helping the governments to innovate their programmes, making them more cost effective, and taking control of the desired development. It is essential that they are willing to provide funding themselves.'

And in Nepal, this is the case. Although this was an unknown model for the authorities, Karuna, which means 'compassion', has managed to involve up to twelve municipalities, and aims at reaching another 127 municipalities in the coming four years. The programme encourages poor communities to take care of children and adults with disabilities and their families, as well as strengthening existing care for mothers and children. It's about prevention of disabilities as well as about rehabilitation of disabled people.

Huge challenge

The municipalities, the provinces and Karuna each contribute one third of the funds the programme needs. Moreover, Karuna managed to incorporate its philosophy and way of working into government thinking. Van den Hoek: 'The authorities see this approach as an innovation that can also be practised in other sectors. They realise it is a sustainable way of funding development, which gives them more ownership of the activities.'

The Karuna model is easily replicable and transferable, Van den Hoek says. The fact that the programmes are taken over by local governments makes them sustainable. To ensure the commitment of local government, Karuna practises a strict exit strategy. After 2.5 years of working together, Karuna leaves a programme and its financing to the municipality and the province. A Training and Resource Centre that is being established will help the local governments with this.

'But it's not easy; in fact, it's a huge challenge,' Van den Hoek comments. 'We now have experience in one district, and in the coming years we will be active in thirteen districts. We will encounter lots of interesting challenges. At the moment, the municipalities are busy recruiting community based rehabilitation facilitators in their own communities. These are local health workers dedicated to rehabilitation. They are going to accompany the people with disabilities in the villages and make sure they get proper care. The responsibility for the programmes is fully at the local level.'

Other approaches

Karuna has the ambition to make the Inspire2Care programme part of the Nepalese health care policy. As from September 2019, this goal has come into sight as the provincial government has incorporated the programme into the regular healthcare system by making it part of its Social Development Act. This is in line with Karuna's philosophy that development cooperation and system change should go hand in hand.

Impact study

Strong local leadership is one of the success factors of Inspire2Care. The two Nepalese directors, who manage a team of 70 professionals, have been involved since the start. Strong involvement of the target group is key. If this is not the case, Karuna simply ends the programme, Van den Hoek says. 'We dared to stop our programme in one village, because local leaders did not cooperate sufficiently, despite previous promises. This impressed them, as it was a new attitude by an NGO in Nepal, which is a real donor darling.'

Since 2016, the activities in Nepal have been carried out by Karuna Nepal, a local NGO. The KarunaNL Foundation in the Netherlands supports the scaling and replication of the Inspire2Care programme via, among other things, fundraising. The KarunaNL Foundation aims to raise 12 million euro in the global North, of which half is currently guaranteed.

Donors like Karuna's approach. Van den Hoek explains: 'The changes we bring to the lives of people with disabilities are incredible. With our scaling, we will impact the lives of 95,000 disabled people, and improve the mother and child care of 500,000 pregnant women. Our exit strategy is also an important asset for donors, together with our cost effectiveness.'

The programme is evidence based. Independent research by the Royal Tropical Institute in Amsterdam showed the high cost-effectiveness of the programme. 'However, we also want to collect evidence in the replication phase, and keep learning,' Van den Hoek says. At the moment, an impact study is being carried out by an independent research institute to learn how the programme implementation can be improved, and to find evidence for the outcome and expected impact. Van den Hoek says: 'Impact studies are expensive and time consuming, but they give you the legitimacy to spend the grant money in an effective manner and reach as many people as possible.'

Conclusions and recommendations

Throwing away the tight corsets

Innovative financing for development (IF4D) is quite a new game, and there is limited scope for review. IF4D is about constantly experimenting, failing, learning lessons, starting anew and getting a step further. It is not one size fits all: the models vary extremely and are as least as different from each other as from traditional financing.

It is clear that there is broad interest in new forms of financing development, but most NGOs have not yet experienced IF4D themselves. That's the purpose of this booklet. It describes the best practices of fast movers and early adopters in the field of IF4D.

After eight thematic chapters, we draw up the balance sheet. What can we learn from our best practices?

Roles

NGOs can have different roles when it comes to IF4D. The most common is that of investor, although a disclaimer is appropriate: not all NGOs exercise this role themselves. Some even doubt that NGOs can act as investors, because their mindset and skills are not sufficiently businesslike. Others say you cannot leave this to bankers, because they are heartless and therefore cannot focus on social impact. The outcome can be a fund at a distance

from an NGO or an internal department that operates relatively independently from the rest of the organisation. The debate on the best form hasn't ended yet, but the interviewees agree that ways have to be found to combine the head and the heart, and that this is realistic. As one interviewee put it: 'That is a very powerful combination.'

A sometimes forgotten role is that of recipient. NGOs can be innovative funders, but they can also be funded innovatively. NGOs can consider seeking an impact fund as a donor, or executing programmes with result-based financing. This forces you to think and act in a more businesslike way and become more innovative. An additional benefit is that your focus will purely be on results, not on administrative procedures or methodologies. This saves you a lot of discussion with funders. The two approaches – being an innovative funder and being funded innovatively – do not exclude each other, as is demonstrated by SNV, which receives *and* provides result-based funding.

Competences and organisation

Innovation requires other competences and organisational forms than the ones you are used to. For impact investing, for example, you have to be able to handle risks, and social entrepreneurship asks for an entrepreneurial spirit and skills. You cannot introduce IF4D immediately: it requires sufficient and well trained staff and re-

sources. Consider appointing an IF4D officer or team. You might have to bring in new people, or collaborate with specialized external partners. Another possibility is to join a community of practice and connect with peers. This brings fun as well as knowledge.

When operating in a more businesslike manner, more needs to be considered than personal skills and competences. You should rethink your organisational concept and ask questions such as: are my management systems suitable for IF4D? And my contractual arrangements? Or, at a more structural level, does just being an NGO meet all the challenges imposed by IF4D? It could be time to start a venture or change your legal status. Although being a Public Benefit Organisation (in Dutch: *Algemeen Nut Beogende Instelling, Anbi*) gives you tax advantages, it can be a 'tight corset', as *Han Valk* puts it. It limits your license to operate in the financial arena. Having said that, it's a pity that the Netherlands lack the legal form of the social enterprise, which combines financial and societal impact. It is not easy to fit new functions into old structures, but by being innovative, you will find your way.

Effects

What does IF4D bring you? The interviewees report results that probably wouldn't have been achieved without IF4D. Take for example the three physical rehabilitation centres in Nigeria, Mali and the Democratic Republic of Congo. Would they have been constructed without the humanitarian impact bond organised by the International Committee of the Red Cross? This seems doubtful. At least the win-win effect, with African citizens and European social investors both benefiting, would not have occurred.

'Many times, the set of instruments an NGO uses, is chosen accidentally or dates from the past. Our advice is to let go the current instruments and look first at the goal you want to achieve. Start from your mission and objectives instead of from your instruments.'

NGOs report a series of improvements resulting from IF4D compared to traditional financing, including:

- increased revenues (in the case of impact investing)
- more efficiency, higher productivity and reduced short-term poverty (cash transfers)
- a greater sense of ownership, a better quality of services and increased outreach (social franchise)
- attracting new players (blended finance)
- increased independence and autonomy of partners (local fundraising)
- more realistic and verified outcomes, and better transparency and accountability (result-based financing).

Can IF4D completely replace traditional financing of NGOs? In the short term: no. Sometimes the approach doesn't even generate additional income, but only saves money or improves cost-effectiveness, as in the case of social franchise and cash transfers. In a time of shrinking government funding and an increased call for efficiency and impact in international development, it is, however, better to be prepared.

The best result, of course, would be that external financing of the development of the global South would simply not be needed anymore.

Conclusions and Recommendations

In that sense, local fundraising and local forms of impact investing are the only solution. But in the short term, these are not the instruments which will generate the highest sums of money. Therefore, the other seven instruments are certainly deserving your attention as well.

Goal

We have seen that there are lots of benefits at stake, but it should not be forgotten that IF4D is a means, not a goal in itself. The best way to take advantage of IF4D is not by starting to study, select and pick instruments, it is by reflecting on the goal you want to attain and the role you want to play. As Han Valk puts it: 'Many times, the set of instruments an NGO uses is chosen accidentally or dates from the past. Our advice is to let go of the current instruments and look first at the goal you want to achieve. Start from your mission and objectives instead of from your instruments.'

An important question you want to answer is, whether you maintain your *raison d'être* when you act in a more businesslike manner. Doesn't this conflict with goals such as serving the ultra poor? Once you have defined your goal, you need to develop a strategy to attain it, and a roadmap to implement it. Having done that, the innovative financial instruments still won't fall out of the sky, but such an approach will undoubtedly simplify the choice and implementation of IF4D-instruments. The most important prerequisite is that you have an open mind and are willing to try and try again.

We wish you a rewarding journey on this challenging but promising road.

Related external sources

- InterAction: Innovative Finance, a guide for international NGOs
- WACSI: Guidebook on Alternative Funding Models
- Impact Investment by Humentum
- Brookings about social impact bonds
- Visual overview of impact strategies from EVPA
- Center for Global Development: The business of changing the world
- Guide for grant seekers on IATI from Transparency Initiative
- Bond's Funding for Development Conference
- SIDA: Results Based Financing Approaches- what are they?

List of interviewees

Corine Aartman - Wilde Ganzen
Rediet Abiy - Aflatoun
John Belt - SNV
Koen Böhm - Dance4Life
Sylvia Borren - BRAC International
Gitte Büch - 100WEEKS
Tim Diphooorn - Solidaridad
Lars van Doremalen - Solidaridad
Tobias Epprecht - ICRC
Michele Ernsting - RNW
Sam de Greve - Plan International
Annet van de Hoek - Karuna Foundation
Mark Joenje - C4D Partners
Antoinette Kome - SNV
Richard Kooge - Care Nederland
Violanda de Man - ICS
Maarten Mulder - Han Valk Fundraising Consultancy
Nienke Nuijens - Wilde Ganzen
Maarten Oranje - Cordaid
Coen de Ronde - FRES
Han Valk - Han Valk Fundraising Consultancy
Martijn Veen - SNV
Hann Verheijen - Cordaid
Merlijn van Waas - Care Nederland



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