

Health Systems for Tuberculosis (HS4TB)

Supporting Private Sector Contracting in India: An Analysis of Innovative Financing Options

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About HS4TB

The USAID Health Systems for Tuberculosis (HS4TB) project seeks to transform the way country leaders and health system managers understand and work toward TB control and elimination. HS4TB is a five-year USAID contract focusing on health systems priorities that most directly support achievement of TB outcomes, with a focus on health financing and governance in the USAID TB priority countries. The project helps countries increase domestic financing, use key TB resources more efficiently, build in-country technical and managerial competence and leadership, and support policy formation and dissemination. HS4TB is led by Management Sciences for Health (MSH) in partnership with Nathan Associates and Open Development.

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ACRONYMS AND ABBREVIATIONS

BFF	blended finance facility
CDFA	Council of Development Finance Agencies
CGTMS	Credit Guarantee Fund Trust for Micro and Small Enterprises
CLN	credit-linked note
CSR	corporate social responsibility
DCA	Development Credit Authority
FHA	fund holding agency
FLDG	first-loss default guarantee
GoI	Government of India
GST	Goods and Services Tax
HQ	headquarters
HS4TB	Health Systems for Tuberculosis
MoHFW	Ministry of Health and Family Welfare
NBFC	non-bank financial company
NEDFi	North Eastern Development Finance Corporation Limited
NGO	non-government organization
NSP	National Strategic Plan
NTEP	National Tuberculosis Elimination Program
PPM	public-private mix
PPSA	Private Provider Support Agency
PRI	program-related investments
RLF	revolving loan fund
ROI	return on investment
RS	Indian rupee

SLA	service level arrangement
SMSE	small- and medium-size enterprise
TAT	turn-around time
TSU	Technical Support Unit
USD	US dollar
USAID	US Agency for International Development

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I. INTRODUCTION

I.1. Background

The global response to TB receives less than half of the funding it needs, leaving close to 40% of people with TB untreated worldwide.¹ In 2020, the COVID-19 pandemic and related recovery measures led to the first increase in global TB deaths in over a decade, reaching 1.5 million people (a 7% increase compared to 2019) and reversing years of global progress in tackling this disease.²

India accounts for more than 25% of the global TB burden; in 2021, the country's TB incidence rate of 210 per 100,000 translated to an estimated burden of 2.95 million cases.³ While coverage of TB interventions by the public sector expanded rapidly from 1993 to 2012 under the National Tuberculosis Elimination Program (NTEP), treatment coverage remains at 63%.⁴ India's domestic financing for TB increased steadily until 2019, both in absolute terms and as a percentage of overall spending (figure 1). At the peak, the Government of India (GoI) spent USD 346 million on TB, accounting for 80% of the country's total spending on the disease. Concurrently, external aid, primarily comprising Global Fund grants, began to taper down.

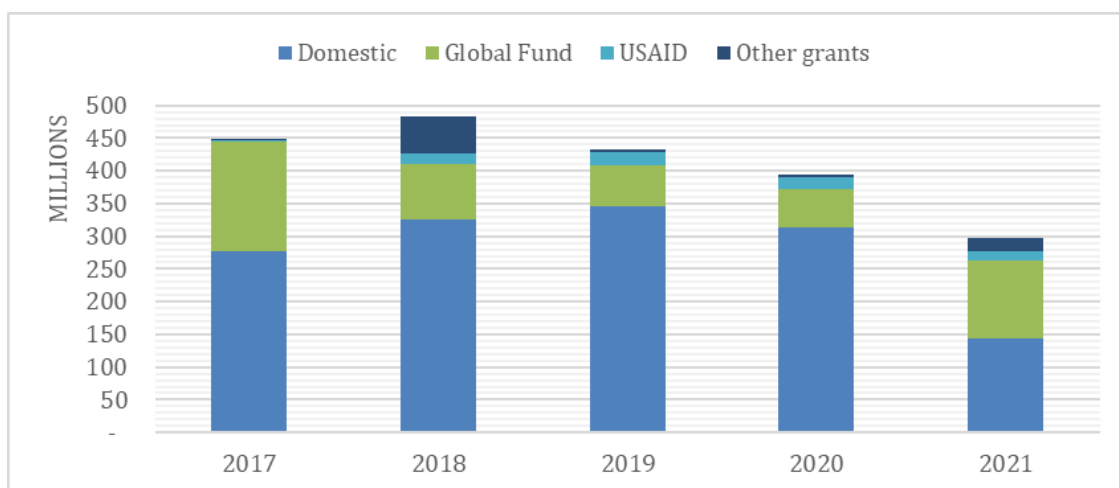


Figure 1. Funding for TB in India (USD million). Source: WHO Global TB Report, 2021

Spending on TB began to decrease in 2020 and even further in 2021, primarily due to the COVID-19 pandemic, with domestic sources narrowing to 48% of total spending and dropping by more than half to USD 143 million. External funding more than doubled in 2022, mainly due to increased spending from the Global Fund. Despite the recent decrease in domestic funding, TB remains high on the

¹ WHO Global TB Report, 2021.

² <https://www.who.int/news/item/14-10-2021-tuberculosis-deaths-rise-for-the-first-time-in-more-than-a-decade-due-to-the-covid-19-pandemic>

³ WHO Global TB Report, 2021.

⁴ Ibid.

Government's political agenda, exemplified by the Prime Minister's endorsement of the TB-Mukt India (TB-Free India) campaign targeting TB elimination by 2025, five years ahead of the global 2030 target.

Up to 80% of people infected with TB in India first contact the health system through the private sector, making private provider engagement critical for TB control and elimination. The Gol has made considerable progress in engaging private providers to provide quality TB care. In 2012, the National Strategic Plan (NSP) endorsed contracting aggregator agencies, called Private Provider Support Agencies (PPSAs), to engage private providers in the delivery of priority TB services (figure 2). Since 2013, various models for private provider engagement have been implemented by donor-funded non-government organizations (NGOs) acting as PPSAs. The NTEP published a Guidance Document on Partnerships in 2019⁵ that described various mechanisms to contract out TB services to the private sector.

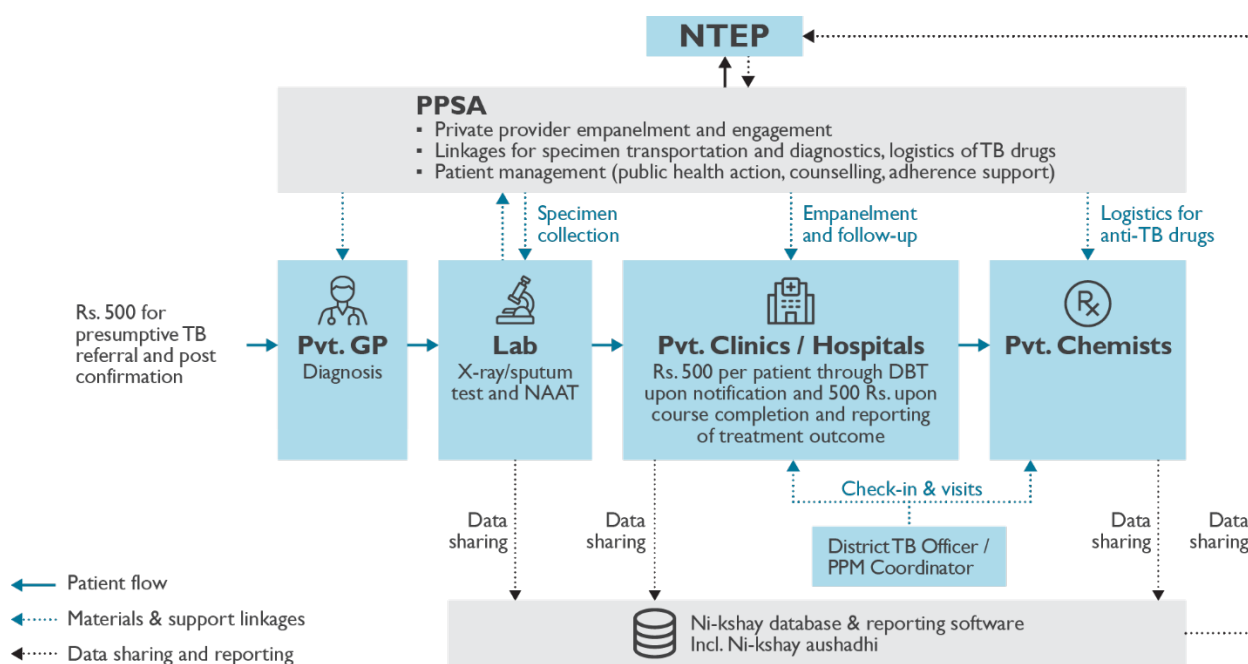


Figure 2. Model for TB service provision using PPSAs, adapted from National Strategic Plan, 2017–2024

Evidence suggests⁶ that PPSAs contributed to increased case finding and reporting, patient retention in the continuum of care, and access to quality care, including rapid diagnostics and quality-assured TB drugs. As a result, the NTEP is scaling up the interface agency approach. In addition to PPSAs, the Gol is currently contracting a variety of other TB diagnostic, case finding, and other services. Financed by an IBRD World Bank loan,⁷ the support of Technical Support Units (TSUs) is available in the States of

⁵ Central TB Division, Ministry of Health and Family Welfare, Government of India. 2019. Guidance Document on Partnerships: Revised National Tuberculosis Control Program.

⁶ Arinaminpathy N, Deo S, Singh S, Khaparde S, Rao R, Vadera B, Kulshrestha N, Gupta D, Rade K, Nair SA, Dewan P. Modelling the impact of effective private provider engagement on tuberculosis control in urban India. *Sci Rep.* 2019 Mar 7;9(1):3810. doi: 10.1038/s41598-019-39799-7. PMID: 30846709; PMCID: PMC6405912.

⁷ Program Towards Elimination of Tuberculosis, details available at: <https://projects.worldbank.org/en/projects-operations/project-detail/PI67523>. See in particular the technical assessment report at <https://documents1.worldbank.org/curated/en/150891551214323148/pdf/Final-Technical-Assessment-Program-Towards-Elimination-of-Tuberculosis-PI67523.pdf>

Assam, Bihar, Karnataka, Madhya Pradesh, Maharashtra, Rajasthan, Tamil Nadu, Uttar Pradesh, and West Bengal. The US Agency for International Development (USAID) Health Systems for TB (HS4TB)⁸ project supports improved contract management for TB services in the private sector in five additional states—Andhra Pradesh, Telangana, Gujarat, Odisha, and Delhi.

1.2. Rationale for innovative financing

At the G20's first health working group side event on TB in March 2022, India highlighted the importance of leveraging international collaborations, public-private partnerships, and knowledge exchange in the wake of COVID-19.⁹ Using these three levers to drive innovations in sustaining existing finance flows and adopting newer financing methodologies at national, subnational, and community levels seems to be the focus for India. As a result, smarter investments involving multilateral, bilateral, and domestic mechanisms to mobilize additional resources for more resilient and sustainably funded TB response efforts are being considered.

The WHO defines innovative financing mechanisms as “non-traditional applications of official development assistance, joint public-private mechanisms, and flows that either support fundraising by tapping new resources or deliver financial solutions to development problems on the ground.”¹⁰ Innovative financing for health is a broad term used to denote everything from global financing mechanisms such as GAVI, the Global Fund, and UNITAID¹¹ to “non-traditional” financing instruments such as debt swaps or development impact bonds.¹²

With the right financial instruments, the Gol can maximize the impact of its TB resources by attracting local private investors—commercial and philanthropic—for meaningful and sustainable scale-up of investment in and delivery of TB services through private health providers. This document assesses options for innovative financing mechanisms that may apply to the Indian TB purchasing context and then applies selection criteria to rank the options and select an initial option to pilot. We took a two-pronged approach to this review.

First, we considered commercial financial instruments that are currently available in India but have not been applied to this specific context; thus, the innovation would be in bringing new lending options to private providers contracting with the Gol. These instruments were derived from a detailed desk review of commercial lending articles, and sources are detailed in Section 2.1. of this report.

⁸ HS4TB is a global project that supports achieving USAID's TB outcomes through health systems strengthening approaches—particularly those relating to health financing and governance—that most directly support achieving TB outcomes. Led by Management Sciences for Health (MSH) in close partnership with USAID/Washington (USAID/W) and national governments and USAID missions, HS4TB implements activities that improve resource mobilization and allocation for TB services and increase the effective purchasing of TB priority services.

⁹ StopTB Partnership, “G20 Focus on Tuberculosis Financing,” 2022. Available at: <https://www.stoptb.org/news/g20-focus-tuberculosis-financing>

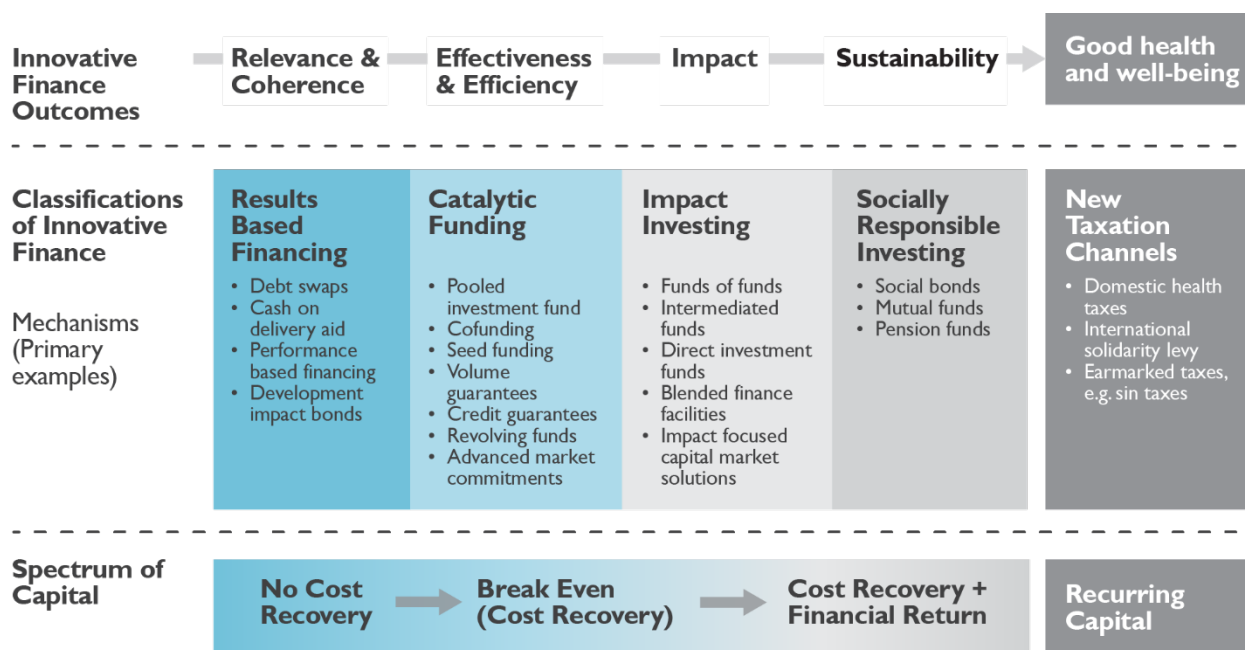
¹⁰ Le Gargasson, J. B., & Salomé, B. (2010). The role of innovative financing mechanisms for health. World Health Report 2010. WHO, Geneva.

¹¹ Atun R, Knaul FM, Akachi Y, Frenk J. (2012). Innovative financing for health: what is truly innovative? *Lancet*. Dec 8;380(9858):2044-9. doi: 10.1016/S0140-6736(12)61460-3. Epub 2012 Oct 24. PMID: 23102585.

¹² USAID Center for Innovation and Impact (CII). (2019). Investing for Impact: Capitalizing on the Emerging Landscape for Global Health Financing.

Second, we consulted development literature on innovative financing for health—in particular, reports from USAID's Center for Innovation and Impact¹³ and the Thinkwell Institute¹⁴—to select potential instruments for consideration in the options analysis. We did not consider innovations requiring major policy change, such as new taxation channels, and instead focused on instruments achievable at the sub-national level in India within a relatively short timeframe. These are primarily the instruments included under the headings of “Catalytic Funding” and “Impact Investing” in figure 3. The review of these innovative financing instruments is described in Section 2.2. of this report.

To our knowledge, this is the only document that combines a review of commercial and non-commercial instruments and assesses their potential application to India's TB public-private mix (PPM) contracting program.



Adapted from “USAID 2019 Investing for Impact” and “Addis Tax Initiative”

Figure 3. Conceptual framework for innovative financing in health. Source: Garret, G., Phily, C., Makhani, L., Chakravarthy, M. (2020). Enhancing Impact through Innovative Financing for Health: Mapping and Recommendations. Thinkwell Institute and Ministry for Europe and Foreign Affairs.

Outsourcing the engagement of private providers by contracting PPSAs and other partnership options, particularly the move from input-based to output-based financing, represents an innovative and fundamental policy shift for the Ministry of Health and Family Welfare (MoHFW). Despite the strong potential and initial successes of PPM contracting, key challenges prevent further progress as this model has not proven to be universally financially viable. PPSAs and other contracts to outsource TB services face financial constraints that present market entry barriers (box 1).

¹³ USAID Center for Innovation and Impact (CII). (2019). Investing for Impact: Capitalizing on the Emerging Landscape for Global Health Financing. <https://www.usaid.gov/sites/default/files/2022-05/investing-for-impact-may2019-updated.pdf>; see, in particular, figures 1 and 2.

¹⁴ Garret, G., Phily, C., Makhani, L., Chakravarthy, M. (2020). Enhancing Impact through Innovative Financing for Health: Mapping and Recommendations. Thinkwell Institute and Ministry for Europe and Foreign Affairs.

Box 1: Barriers to market entry faced by PPSAs and other service providers

- **Large security deposit.** Requirement for an up-front payment of a hefty security deposit and earnest money deposit; the provider does not receive interest on deposit payments and may not receive repayment for months after signing a contract.
- **High financial risk.** Inability or unwillingness of smaller and thinly capitalized providers to take on the risk (avoiding financial losses that might arise from non-payment of contract invoices by the Government).
- **Capital shortage.** Insufficient access to capital to meet startup and initial operating expense obligations since output-based contracts only allow for invoice submission after significant project operating costs have already been incurred.
- **High/unaffordable interest rates.** Smaller NGOs struggle to access commercial financing at affordable interest rates.

Even when providers can enter into contracts, further challenges may eventually drive them toward market exit. Service providers in existing contracts with the Gol face financial shortfalls, primarily due to payment delays, resulting in reduced capacity to perform (box 2).

Box 2: Reported market exit drivers for PPSAs and other service providers

- **Financial fragility and inability to absorb financial shocks.** Service providers have insufficient liquidity and lack reserves against cash flow disruptions.
- **Lengthy invoice verification.** Over-verification of invoices (anecdotally, in some cases, as much as 100% verification) instead of sampling, result in time-consuming reconciliation processes and the withholding of funds.
- **No payment advances.** The Government does not pay a substantive advance (or, in most cases, pays no advance at all) upon contract signing and/or invoice submission.
- **Inequitable risk-sharing.** Perception that risk is not equitably shared between Government and service providers in contracts, including in cases where Government may not supply an agreed-upon input for contract operations (such as the timely supply of program commodities).
- **Relational challenges affecting buyer-supplier relationships.** Absence of trust, partnership, and communication between Government and private TB service providers.

With the increasing involvement of private providers, the TB program in India needs a stronger marketplace where funds are exchanged between a broader and more diversified pool of financiers (beyond the Government) and private TB providers who seek capital. Even while continuing work to address some of the contracting issues that cause financial stress on PPSAs and other private counterparties, innovative financing mechanisms offer an opportunity to address financial challenges.

1.3. Options analysis approach

This report documents HS4TB's options analysis of innovative financing mechanisms to provide financial relief to the service providers, including PPSAs, by addressing insufficient capitalization of service providers and cash flow issues due to payment delays.

HS4TB identified and assessed the most viable instruments for their design, applicability to India's context, and implementation feasibility. We conducted the options analysis using a combination of desk review and consultative meetings with subject-matter experts in a three-stage process. We did not, as part of this review, formally interview PPSAs or other borrowers, nor did we survey banks or other lenders about market rates for, or required terms and conditions of, specific financing products or specific borrowers.

Identification of relevant financial service instruments used in India. Through a desk review analysis, we mapped business sectors and industries offering the most relevant financial instruments in terms of market size, the profile of key suppliers, and applications in India's health sector. Actors using private and development capital to support financial instruments include financial services companies, philanthropic groups, international organizations, and development agencies. In addition, our desk review explored the financing mechanisms used by the for-profit sector in areas such as medical devices and equipment, biotechnology, pharmaceuticals, health insurance, health care provision, and services.

Analysis of characteristics and requirements for accessing capital. For each type of financing instrument, characteristics and specific requirements were assessed through desk research, including the processes used for application, approval, funding, and reimbursement, plus the duration, interest rates (if any), other fees, etc. Pros and cons were developed with a focus on specific circumstances under which one instrument might be more suitable than another (such as the amount of funding involved, the intensity of technical resources required in terms of the level of effort, or the complexity of setting up and negotiating a particular financing arrangement). The findings of this desk review are summarized in Section 2 of this report.

Assessment of potential applications to PPSA and other partnership financing. We had internal discussions with the HS4TB India and headquarters (HQ) technical teams to assess the feasibility of the various financial instruments to address the PPSAs' capital and cash-flow needs. We reflected on the associated financial risks, short-term or long-term impact, and availability of partners and funding interest, but we ultimately decided to assess the instruments based on a few simple criteria:

- **Timeline of implementation:** The instrument should be feasible to set up and implement in at least one state in the short term (i.e., by the last quarter of the 2023 calendar year).
- **Administrative, technical, and regulatory feasibility:** The instrument should be relatively straightforward to administer within the parameters of the HS4TB project and should not present significant regulatory hurdles.
- **Problem addressed:** As this will be the initial pilot, the instrument should serve as a “bridge financing” mechanism to address the most immediate problem faced by current PPSA NGOs—i.e., cash-flow disruptions due to delays in repayment.
- **Political acceptability:** The instrument should be acceptable to NTEP, at the central and state levels, and to other relevant Gol stakeholders, such as the National Health Mission.

Please note—financial markets are dynamic and so indications below of interest rates, market size, and other financial information are accurate as of the date of this report but should be confirmed if one (or more) innovative financing approach is to be implemented.

2. REVIEW OF FINANCIAL INSTRUMENTS

2.1. Traditional financial instruments designed as commercial investment

The financial services offered in the commercial sector are designed to generate profit in a risk-controlled environment with expectations of full cost recovery and competitive financial returns. The main instruments available in the financial service market in India are described below.

Invoice factoring

Conceptual definition. Financial service allowing “seller” businesses to sell their outstanding invoices owed by a “buyer” (or debtor) to a lender or “factor,” who might initially pay the business a proportion of what the invoices are ultimately worth and remit the remaining portion to the seller once the factor receives full payment (figure 4). The seller pays interest or a fee for these services (box 3). Typically, in India, up to 80% of the original value of the invoice is initially paid by the factor as an advance, and funds raised are available to the seller between 24 and 72 hours after invoice submission.¹⁵ More specifically,¹⁶

- Seller submits the approved invoices from its debtors to its preferred factor.
- This factor checks those bills and, based on its assessment, extends a certain percentage of the invoice value as a cash advance.
- Following a disbursement, the factor initiates the payment collection process from the debtors (i.e., from the “buyer” in figure 4).
- Once the factor has collected all outstanding payments, it forwards the balance amount, minus a service fee, to the seller.

Box 3: Debt ownership and transfer: key concepts to understand the difference between invoice factoring and invoice discounting.

One important point about invoice factoring is the purchase of the unpaid invoices outright by the factor which becomes the legal owner of the debt. The buyer (debtor) would then be formally notified, e.g., if the factor is acting as a debt/payment collection agent on behalf of the seller or debt owner. Could this work when the buyer (debtor) is government? Determining the legal and regulatory feasibility of such transfers of debt ownership and payment collection rights from sellers to factors when the buyer/debtor is the government of India is beyond the scope of this paper. Of note, however, invoice discounting is another type of invoice financing mechanism that is distinct from invoice factoring and might be more legally feasible for governments compared to invoice factoring because it is a loan secured against outstanding invoices with no changes in debt ownership. In that case, there is no transfer of debt ownership and the seller retains control of payment collection and enforcement.

¹⁵ <https://www.kredx.com/supply-chain-finance/invoice-discounting/invoice-factoring>

¹⁶ Ibid.

A business can define its commercial relationship with a factoring company in two main ways. Spot-factoring is a one-off or ad-hoc agreement suitable for businesses willing to factor a limited number of invoices but at higher transaction costs. The alternative is contract factoring, which typically involves establishing an ongoing relationship with a factor and factoring invoices regularly at much lower transaction costs.¹⁷ Further, factoring can be of two risk-sharing types: recourse or non-recourse. Recourse factoring requires a guarantee from the seller that it will maintain a certain liquidity level so that the seller can purchase back any non-performing accounts receivable taken as collateral by the factor. In a non-recourse arrangement, credit risk and liability of non-payment of a factored invoice are assumed by the factor, so they are often compensated differently (box 4). Terms such as advance rates will likely be lower and factor fees will likely be higher for non-recourse factoring when compared to recourse factoring.

Box 4: Recourse vs. Non-Recourse Factoring—What's the Difference?

Invoice discounting is a form of secured loan and might be considered in the context of the discussion of loans, below. If it were to be used to support a loan, we would need legal advice on what else must be done to perfect a security interest in the invoice. Moreover, the same issue remains as with invoice factoring: as a practical matter, can a creditor collect against the invoice from a government entity? Both these issues are out of the scope of this paper. For more information, see: <https://www.capstonetrade.com/recourse-vs-non-recourse-factoring/>

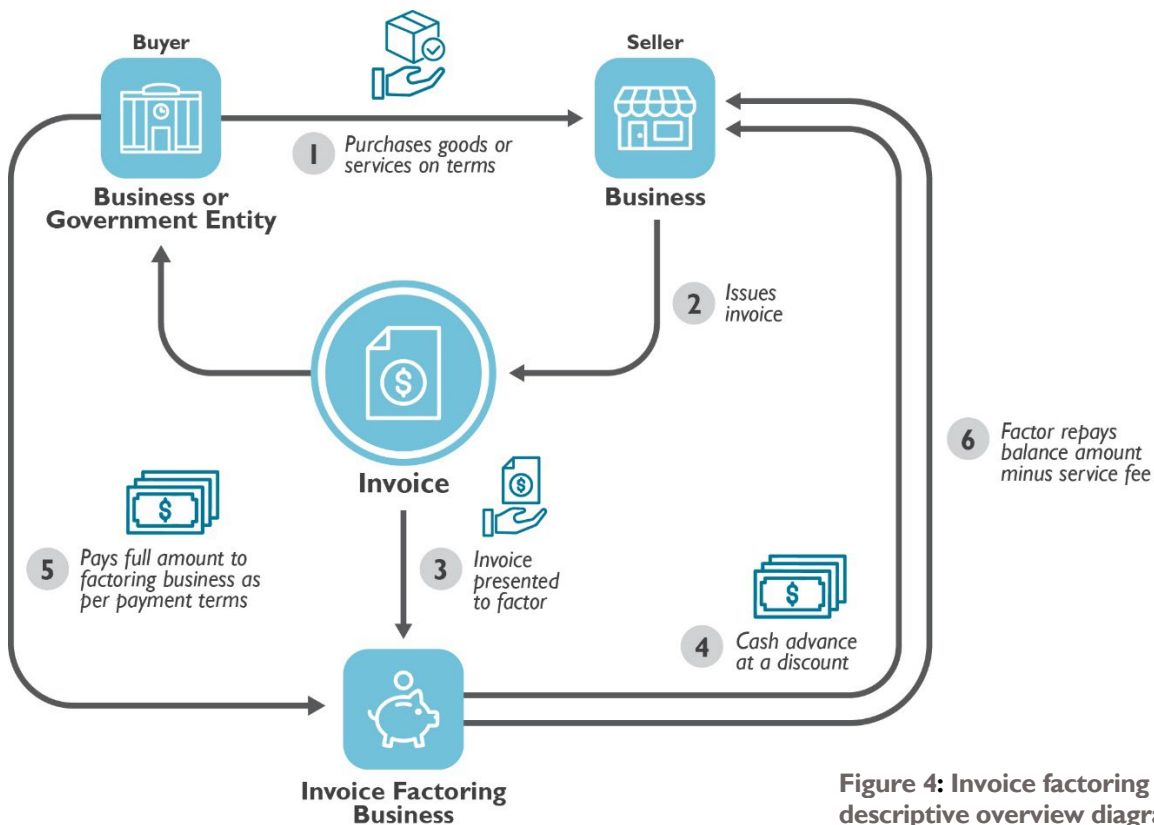


Figure 4: Invoice factoring descriptive overview diagram

¹⁷ <https://bench.co/blog/operations/invoice-factoring/#v2li-b>

Application criteria and approval. Access to invoice factoring services significantly relies on businesses' financial history (past profit margins), years in business, industry type, and stability in revenues and growth, as well as the minimum value of invoices subject to factoring and service fees (typically depends on lenders).

Interest rate and other fees. The factor and seller agree on a factoring or discount rate that is applied either to the original amount borrowed as a cash advance or to the entire value of the invoice and charged weekly or monthly. The industry standard suggests a rate between 0.5 and 5% per month.¹⁸ Various additional administrative charges, labeled "service fees," are usually incorporated in the cost structure of the invoice factoring agreement. Usually ranging from 0.5%–2.5%¹⁹ of the value of invoices factored, the typology of these administrative fees is reflective of core services around processing and managing invoices (the basis for fee application includes, but is not limited to, system setup, invoice processing, same-day payment, monthly minimum volume, early termination, new account, agreement renewal, collection of past due payment, automated clearing house and wire transfers, etc.²⁰).

Duration. The loan's duration applies to invoices typically payable (obligation to pay) between 30 and 90 days.²¹

Pros. The main benefit of invoice factoring is quick access to liquidity and ongoing cash flow. Invoice factoring services can turn outstanding invoices due within 90 days into immediate cash. As a result, businesses with a high volume of unpaid invoices payable within 90 days are in a strong position to use them as reliable collateral as charge (factoring or discount) rates and service fees would likely cost less than those associated with traditional loans.

Cons. Invoice factoring can be less attractive to businesses because of potentially high transaction costs driven by a combination of service and factoring fees (each 1%–5% of the total invoice amount in India²²), dependency on the buyer's payment history (used by a factor to calculate risk and decide whether to take the invoice or not), and the factoring (or discount) rate being charged on a monthly or weekly basis until payment is recovered. Timely payment has been a significant issue, with several districts in Odisha, for example, reporting a Gol PPSA contract invoice turn-around time (TAT) of as high as 400 days in 2021.²³ Getting financiers to agree to invoice factoring without significant fees and low advance payment will be challenging unless the TAT is significantly reduced.

Market size and players. The invoice factoring market has a market size of USD 100 billion in India.²⁴ Companies supplying these services include KredX, Invoicemart, Receivables Exchange of India Ltd, M1xchange, and Priority vendor.²⁵ Emerging applications in the health care ecosystem include services

¹⁸ <https://bench.co/blog/operations/invoice-factoring/#v2li-b>

¹⁹ <https://www.trevipay.com/resource-center/blog/how-much-does-invoice-factoring-cost/>

²⁰ <https://www.nerdwallet.com/article/small-business/invoice-factoring>

²¹ <https://www.kredx.com/supply-chain-finance/invoice-discounting/invoice-factoring>

²² <https://www.nerdwallet.com/article/small-business/invoice-factoring>

²³ According to project data, the TAT for these Odisha districts was reduced to 70 days as a result of HS4TB's support.

²⁴ <https://www.finline.in/project-report/invoice-discounting-bill-discounting#:~:text=The%20market%20size%20of%20Indian,is%20around%20USD%20100%20billion>

²⁵ https://www.linkedin.com/pulse/top-5-invoice-discounting-platforms-india-pooja-k/?trk=articles_directory

provided by DigiSparsh, which offers invoice discounting solutions for vendors or suppliers of hospitals and claims to health insurance companies.²⁶

Note that securing invoice payment from buyers who are also government agencies might pose unique regulatory or political challenges. These need to be reviewed if invoice factoring is prioritized as a financing mechanism for PPSAs.

Overdraft facility

Conceptual definition. An overdraft facility is a credit or loan arrangement with a bank allowing account holders to use or withdraw more money than they have in their account up, to an approved limit (figure 5). The approved overdraft limit depends on the creditworthiness of the account holder and the type of collateral, if any, offered (i.e., savings account, salary account, loan, fixed assets). According to *The Economic Times*, the State Bank of India set the overdraft limit range (against fixed deposits) for personal accounts at between 25000 and 5 crore Indian rupees (Rs)²⁷ (USD 302,000 to USD 605,000, as of July 2023).

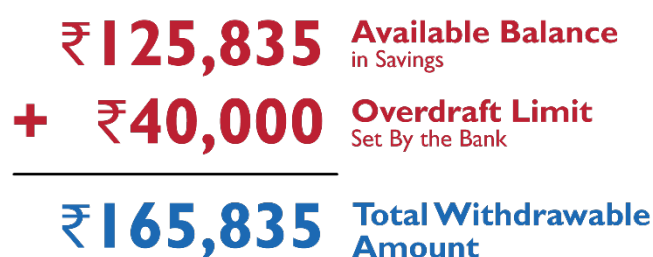


Figure 5: Overdraft facility descriptive overview

Application criteria and approval. Access to overdraft facility services by businesses relies significantly on repayment capacity, financial standing, existing savings, current accounts with the bank or financial institution offering the overdraft loan, and minimum tenure of an active account (determined by a financial institution—typically 6 months).

Interest rate and other fees. Interest rates will vary based on the nature of the asset offered as collateral. However, from larger banks in India, cited rates are 9.65% or more²⁸ and are applied only to the utilized amount.

Duration. The repayment period is typically between 1 and 12 months but can go up to 60 months (depending on the institution and type of overdraft).²⁹

Pros. Overdraft facility arrangements offer quicker disbursement with minimal documentation compared to traditional term loans and are more suitable for short-term fund requirements. They are suitable for businesses with satisfactorily operated accounts (per bank or financial institution requirements) for at least 6 months, good repayment history, and a good relationship with their bank (or other financial institution).

²⁶ <https://digisparsh.in/Credit%20For%20Suppliers.html>

²⁷ <https://economictimes.indiatimes.com/definition/Overdraft>

²⁸ <https://www.outlookindia.com/business/back-to-basics-all-you-need-to-know-about-overdraft-facility-news-238879>

²⁹ <https://www.outlookindia.com/business/back-to-basics-all-you-need-to-know-about-overdraft-facility-news-238879>

Cons. Features that are less attractive to businesses include the short repayment time (negative balance must be repaid as soon as within a month, depending on the institution) and daily compounded interest, compared to monthly compounding for traditional term loans.

Market size and players. Overdraft accounts are among the most common ways to access credit in the country, accounting for close to 7% (USD 181 billion) of India's commercial banks' total credit limit amount as of March 2023.³⁰ Applications to the health sector include overdraft loans through IDBI Bank for providers such as doctors, medical practitioners, clinics, or pathology labs. Evidence gathered in-country suggests business accounts have a higher overdraft limit than personal accounts. An organization with a PPSA-related TB contract reported having an overdraft facility agreement with their bank reaching Rs 7 crore (close to USD 847,000, as of July 2023).³¹

Credit-linked notes

Conceptual definition. A credit-linked note (CLN) is a financial instrument that allows the issuer to shift or "swap" their credit risk to other investors, expecting to earn a higher yield on the note in return for accepting higher exposure to financial loss associated with specified credit risks. CLNs are generally created after a special purpose vehicle or trust purchases the original loan,^{32,33} which is subsequently collateralized with highly rated securities³⁴ (figure 6). They typically range between USD 10 million and USD 25 million.

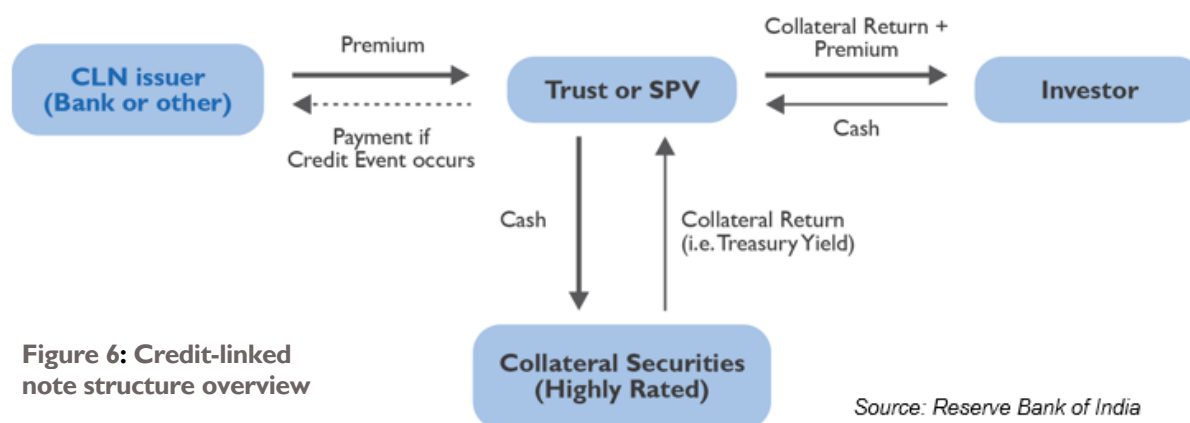


Figure 6: Credit-linked note structure overview

Source: Reserve Bank of India

Application criteria and approval. Credit-linked notes do not apply to individual or institutional borrowers. Instead, they involve issuers (banks or others) wanting to remove the credit risk of a fixed-income instrument they have purchased and transfer that risk (for a fee) to investors or financial entities aiming to generate higher returns on their loan portfolios at a higher risk.

³⁰ <https://cimsdbie.rbi.org.in/dbie/publications>

³¹ Other PPSA organizations consulted were not willing to share such information with the project country team.

³² <https://www.investopedia.com/terms/c/creditlinkednote.asp>

³³ <https://www.rbi.org.in/scripts/PublicationReportDetails.aspx?ID=309>

³⁴ Securities refers as fungible (readily interchanged for another of like kind), negotiable financial instruments that hold some type of monetary value.

Interest rate and other fees. The fee structure (initial interest rate and additional markup—i.e., rate of return for investors) will depend on the number of loans or parts of loans present in the security, how many of the associated loans end up in default, and how many investors are participating in the particular security packages.³⁵

Duration. CLNs can be structured to guarantee an average maturity time of 12 years. Still, they can be customized for investors wanting shorter maturity time and duration exposure to issuers with outstanding long-term securities.³⁶ For example, CLNs in India typically have a duration (maturity time) of between 2 and 5 years.³⁷

Pros. Investors are given a higher yield (rate of return) on the note for accepting exposure to a specified credit event or risks (a sudden and tangible negative change in a borrower's capacity to meet its payment obligations). It works well if the borrower taking the loan that backs the CLN is creditworthy in terms of debt or loan repayment history.

Cons. Because specified loans back credit-linked notes, there is an inherent risk of default associated with the security. Credit-linked notes are potentially complex to structure and set up, as one loan can be broken into multiple CLNs. In addition, the original loan (from bank to PPSA or other TB contractor organization) would still need to be established first, so CLNs just add another level of complexity.

Market size and players. Credit-linked notes are one of India's fastest-growing areas in the credit derivative sector.³⁸ The collective exposure of the banking system in India to CLNs reached around USD 1 billion in 2013.³⁹

Contract financing

Conceptual definition. Type of unsecured business loans working as advance payment or cash advance on the money stipulated in the contract with no collateral required (figure 7). Often, the lender may advance the business as much as 90% of the contract invoice amount.⁴⁰

Unlike invoice factoring, contract financing is not based on the value of unpaid invoices but on the value of current and upcoming approved contracts.⁴¹ A contract financing company reviews the contractor's agreement and provides financing based on the estimated revenue that will be generated from that contract. Contractors can immediately access funds after a contract award before submitting any milestones or deliverables to the government agency.

³⁵ <https://www.investopedia.com/terms/c/creditlinkednote.asp>

³⁶ <https://www.barbicanconsulting.co.uk/cln>

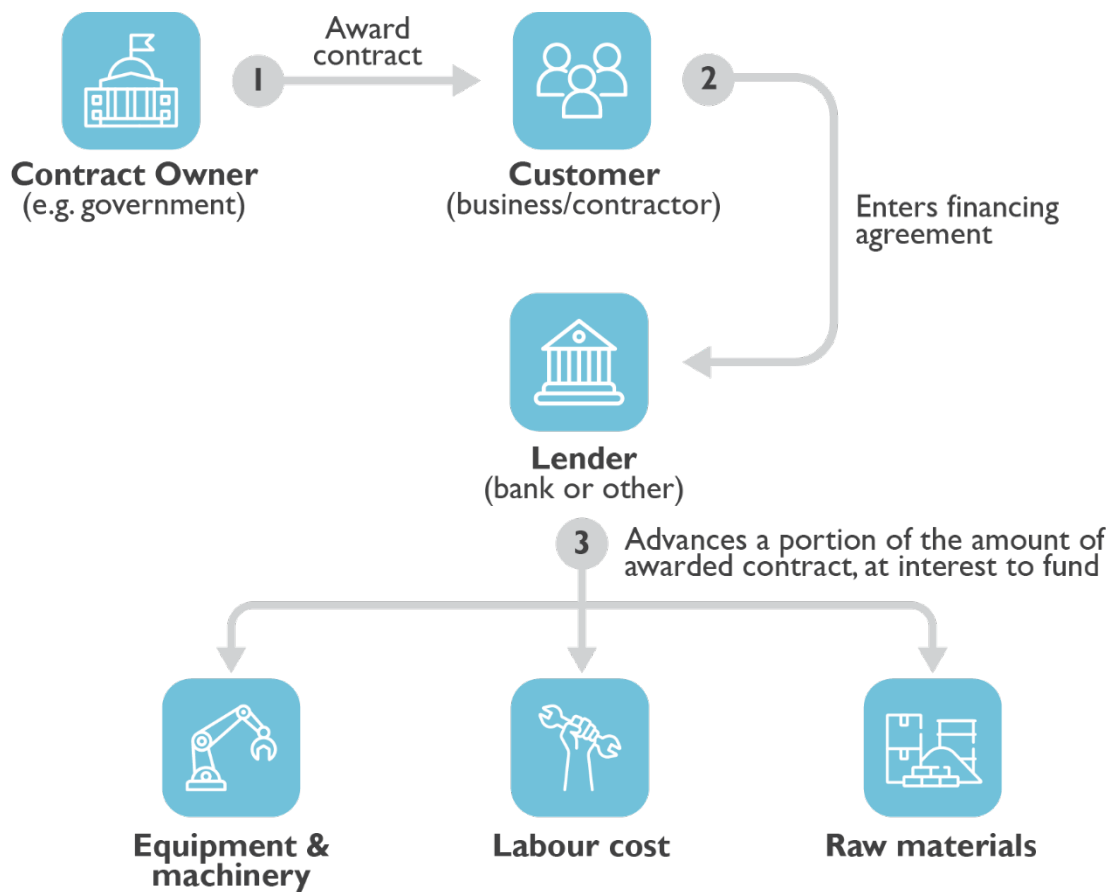
³⁷ <https://www.rbi.org.in/scripts/PublicationReportDetails.aspx?ID=309>

³⁸ <https://www.rbi.org.in/scripts/PublicationReportDetails.aspx?ID=309>

³⁹ https://www.business-standard.com/article/finance/banks-find-credit-linked-notes-a-novel-tool-to-ramp-up-returns-105082601042_1.html

⁴⁰ <https://www.banks.com/articles/loans/business-loans/contract-financing/>

⁴¹ <https://leonidfinance.io/news/government-contract-financing-vs-government-invoice-factoring/>



Adapted from OCBC Bank

Figure 7: Contract financing conceptual overview and process

Application criteria and approval. A lender will typically look at the borrower's (and possibly contract owner's) credit history, business rating, and other factors before deciding whether to approve the funding.

Interest rate and other fees. The lender may charge interest and other fees monthly from the loan account set up to receive the advance payments and the entire amount at the fulfillment of the contract. In India, such loans usually are offered with a floating interest rate linked to the market reference rate, ranging between 9.50% and 11%.⁴²

Duration. A contract financing agreement is underwritten based on the terms of a contract a business has already signed and typically mirrors the length of this contract. However, in India, these loans are generally sanctioned with a tenure of between 1 and 7 years.⁴³

Pros. Contract financing is a good option for businesses in good standing and working project-to-project that might not always have the money to front the capital expenditure required to deliver goods or

⁴² <https://aagey.com/working-capital-loan/>

⁴³ <https://aagey.com/working-capital-loan/>

services specified in the contract. Further, contract financing loan agreements usually do not impose any physical collateral requirement as an assurance of repayment on their borrowers.

Cons. A contract financing agreement is considered an unsecured loan, riskier than the conventional secured loan, and therefore requires businesses to meet more stringent criteria to qualify. Lenders will typically assess if a business's monthly income is sufficient to cover loan amounts even when the project for which the contract was awarded fails to pay. Further, lenders will look at a business' loan repayment history, time in operation, business rating, and other factors before deciding whether to approve the funding. Cash-strapped PPSAs with no loan repayment history, limited to no alternate funding sources and experiencing significant payment delays, likely will not qualify to access this financial service.

Market size and players. Contract financing is part of the broader working capital loan market. Demand for these unsecured loans in India is expected to rise by 28% to Rs 11.2 lakh crore (over USD 140 billion) at the end of fiscal year 2023 (FY23).⁴⁴ For instance, the North Eastern Development Finance Corporation Limited (NEDFi) is a public financial institution providing "financial assistance to micro, small, medium, and large enterprises for setting up industrial, infrastructure, and agri-allied projects in the North Eastern Region of India and also Microfinance through microfinance institutions/NGOs."⁴⁵ As part of its loan portfolio, NEDFi provides working capital term loan assistance to eligible contractor firms/companies for contract work execution. The interest rate is fixed based on the prime lending rate (with plus or spread) per the borrower's creditworthiness, risk perception, rating, other relevant factors, and additional securities (when deemed applicable). Banking institutions in India, such as Indian Bank, Federal Bank, and HDFC Bank, also offer working capital term loans for contract finance.

2.2. Financial innovations: exploring the use of instruments involving non-commercial capital

Beyond the traditional, commercial lender-based products outlined above, financial innovation provides opportunities for raising more capital and broadening investment goals beyond commercial purposes. Strategic use of non-commercial capital can unlock and attract private investment or new funding sources in a way that explicitly meets investors' social and financial objectives. This section explores the main applications of this concept in India. Note that some of the financial products below are commonly used in commercial transactions; we limit our discussion of these to the development context and underserved borrowers in the social sector.

Loan or credit guarantees

Conceptual definition. A loan guarantee is a financial arrangement structured as a risk mitigation approach. It provides partial or full protection to lenders willing to invest in underserved sectors with high social impact potential, such as health. Creditworthy third parties willing to underwrite a significant proportion of the risk associated with lending money are used as guarantors to under-served borrowers that would be traditionally perceived as unqualified (figure 8). If a borrower defaults on payments under

⁴⁴ <https://economictimes.indiatimes.com/industry/banking/finance/macroeconomic-shocks-may-lead-to-28-rise-in-companies-working-capital-demand-in-fy23-says-report/articleshow/92988086.cms>

⁴⁵ <https://www.nedfi.com/who-we-are/>

the loan, the lender would look to the guarantor for payment. Loan (or credit) guarantee schemes are common government or development agency-led interventions to unlock financing for small- and medium-sized enterprises (SMSEs).

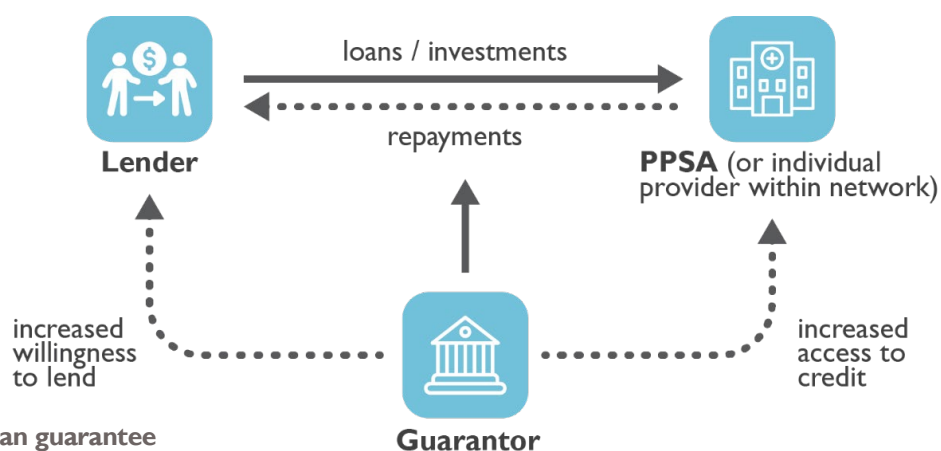


Figure 8: Loan guarantee descriptive overview

Application criteria and approval. Criteria for the provision of this type of loan varies by bank and will predominantly relate to the creditworthiness of the loan guarantor. Before approving the loan, banks will typically consider the loan guarantor's credit score, financial credentials, and any other loans that have been guaranteed. In the event of default on the loan, or demise of the borrower, banks have the right to approach the guarantor to pay the outstanding amount up to the amount of the guarantee.

Interest rate and other fees. Interest rates for loans under a guarantee facility vary by sector, purpose, and type of partnership agreement with local commercial lenders. However, they typically range from 10% to 14%,⁴⁶ lower than the 20%–24%⁴⁷ bracket charged by commercial banks in high-interest-rate lending environments. In addition, the guarantor might charge a guarantee fee to the lender or organization receiving the guarantee. Grants from the guarantor can subsidize a part of this guarantee fee when appropriate.⁴⁸

Duration. Loan guarantees range from 5 to 20 years, depending on the agreement.⁴⁹

Pros. Making more development projects commercially viable is the main benefit of risk underwriting arrangements such as loan guarantees. There are no requirements for an immediate outlay of capital, and funding is only required when called, which will only happen in a subset of cases. Furthermore, well-structured guarantees (box 5) increase responsiveness to projects and investors' needs, leading to higher impact.

⁴⁶ https://www.usaid.gov/sites/default/files/documents/1860/Economic_Growth- DCA.pdf

⁴⁷ Sharma P. (2020). USAID's role in the changing development finance landscape: Presentation to Heller School for Social Policy and Management. Unpublished.

⁴⁸ <https://cdn.sida.se/publications/files/sida62295en-guarantee-portfolio.pdf>

⁴⁹ <https://crsreports.congress.gov/product/pdf/IF/IF10409/5>

Cons. Structuring loan guarantees can take a long time and is potentially costly. Subject-matter experts consulted in the banking and development finance sectors suggest that a loan guarantee program takes 3–6 months to set up. Further, transaction costs unrelated to applicable taxation or loan interest can go as high as 7% of the total loan value, on average, even just on the lender side, for a typical three-year maturity loan. These costs are structured as both one-time upfront and annual fees. Upfront one-off payments generally relate to loan processing, account creation (origination), and intermediation services. Other costs include annual fees, such as a mandatory business owner or keyman life and disability insurance.

Box 5: Unpacking the concept of structuring

Structuring refers to the ability to set up a lending transaction involving guarantees and other financial instruments by using its constituent parts in a way that meets requirements reflecting, to some extent, industry standards (financial return, risk control, regulatory, financial access, among others). Design parameters include, but are not limited to, the purpose, amount, type, interest rate, repayment term, repayment period, repayment method, risk mitigation measures, borrower's risk profile, collateral arrangements, requirements for a guarantor (if any) or other covenants.

In addition to the lender, the guarantor similarly has applicable transaction costs structured as upfront one-off and annual fees. Guarantee origination fees are charged upfront and can run between 0.25% and 3.5% of the guaranteed portion of the loan, depending on the loan size and maturity.⁵⁰ Given the significant risk, third-party guarantors charge an annual fee for monitoring the loan.⁵¹

Market size and players. Nearly 2.3 million credit guarantees, worth close to Rs 579 billion (USD 7.05 billion), were approved in FY22 by the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) managed by the Ministry of Micro, Small and Medium Size Enterprises⁵² in India. With a network of 115 financial institutions serving as member lending institutions, the CGTMSE started in 2001 as a joint initiative by the Government of India and the Small Industries Development Bank of India.⁵³ Many international donors, including the World Bank, Bill & Melinda Gates Foundation, Sida, and USAID, have used guarantee instruments to mitigate concerns about risks and collateral and encourage financial institutions such as commercial banks to enter the health sector. For example, USAID's Development Credit Authority (DCA)⁵⁴ guarantees have unlocked USD 4.8 billion in private capital globally for development since 1999. DCA supported 29 health sector guarantees across 18 countries in global health alone.⁵⁵ In 2018, USAID and a Mumbai-based lender signed a USD 10 million portfolio guarantee to improve access to capital for small- and medium-sized enterprises operating in the health sector in India, prioritizing lending to women entrepreneurs.⁵⁶

⁵⁰ <https://www.occ.gov/publications-and-resources/publications/community-affairs/community-developments-insights/pub-insights-dec-2014.pdf>

⁵¹ <https://www3.dfc.gov/DFCForms/Documents/DFCFinanceFAQs.pdf>

⁵² <https://msme.gov.in/about-us/about-us-ministry>

⁵³ <https://www.statista.com/statistics/1243408/india-approved-guarantees-within-cgtmse-fund/>

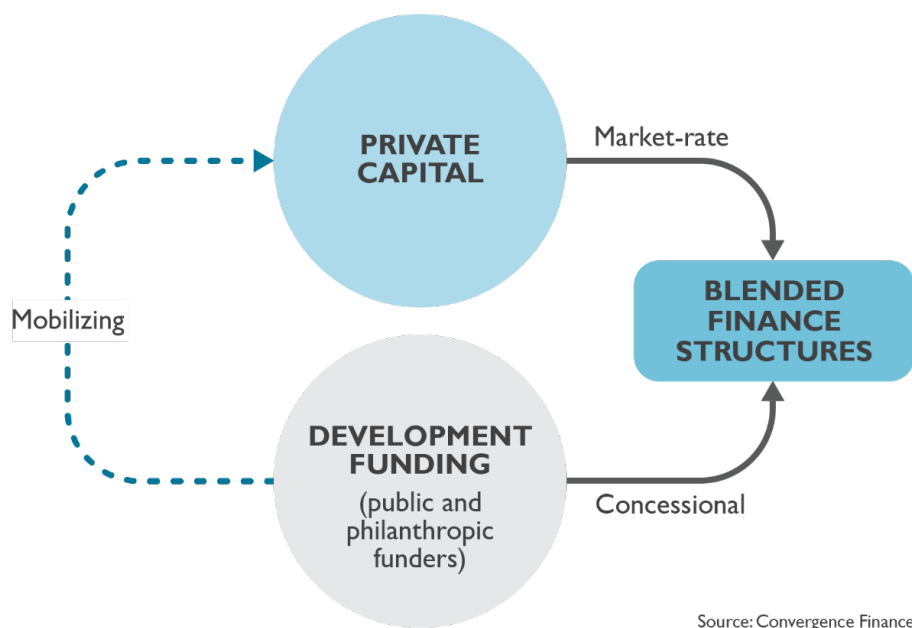
⁵⁴ The DCA merged with the Overseas Private Investment Corporation to form the U.S. International Development Finance Corporation (DFC) on December 20, 2019.

⁵⁵ <https://www.usaid.gov/sites/default/files/documents/1864/investing-for-impact-aug2017-508.pdf>

⁵⁶ <https://timesofindia.indiatimes.com/business/india-business/usaid-dewan-housing-join-hands-to-improve-healthcare/articleshow/65122917.cms>

Blended finance facility

Conceptual definition. A blended finance facility (BFF) is a financial service that "combines capital with different levels of risk to catalyze risk-adjusted, market-rate-seeking financing into impact investments."⁵⁷ In the development space, it is defined as "the strategic use of development finance and philanthropic funds to mobilize private capital flows to emerging and frontier markets" with a focus on high-impact sectors⁵⁸ (figure 9). This structuring approach "allows organizations with different objectives to invest alongside each other while achieving their own objectives (whether financial return, social impact, or a blend of both)."⁵⁹ SAMRIDH discussed below provides an example of a blended finance facility.



Source: Convergence Finance

Figure 9: Blended finance facility conceptual overview

Application criteria and approval. Access to resources allocated through blended finance instruments follows a rigorous process and applicable supporting mechanisms such as risk underwriting. Various criteria are used to assess businesses' eligibility, including but not limited to the nature of the problem to solve, appropriateness of the solution proposed to address the issue, financial viability of the solution, and scale of impact.⁶⁰

Interest rate and other fees. Costs to access capital through a blended finance instrument depend on the funding size and need of the proposed interventions and the expertise/ability to structure the financing to ensure proper risk management (capital preservation using appropriate risk underwriting tools) while reducing transaction costs.⁶¹

⁵⁷ <https://thegiin.org/blended-finance-working-group/#:~:text=Blended%20finance%20is%20a%20strategy,seeking%20financing%20into%20impact%20investments>

⁵⁸ https://www3.weforum.org/docs/WEF_Blended_Finance_A_Primer_Development_Finance_Philanthropic_Funders.pdf

⁵⁹ <https://www.convergence.finance/blended-finance>

⁶⁰ <https://samridhhealth.org/apply-for-funding/>

⁶¹ <https://www.convergence.finance/resource/blended-finance-vol.-1:-a-primer-for-development-finance-and-philanthropic-funders/view>

Duration. Although dependent on the nature and need of the interventions, blended finance instruments will typically support enterprises' projects with a defined vision and goals, usually for a period of 3–5 years.⁶²

Pros. Help development funders overcome investor barriers and increase the supply of private capital to high-social-impact sectors, mainly by shifting investment risk-return profile, sharing market knowledge and experience, building local capacity, and shaping policy and regulatory reforms.⁶³

Cons. Pooling and joint fund management arrangements between different sources of capital with different risk levels take time to set up and could lead to high structuring costs.

Market size and players. SAMRIDH blended finance facility in India combines commercial capital with philanthropic and public funds to achieve social impact (figure 10). These funds are managed jointly under a USD 300 million tripartite partnerships between the Government of India and the private and philanthropic sectors to offer blended finance solutions by combining commercial capital with public and philanthropic funds to provide grants and syndicated loans.⁶⁴

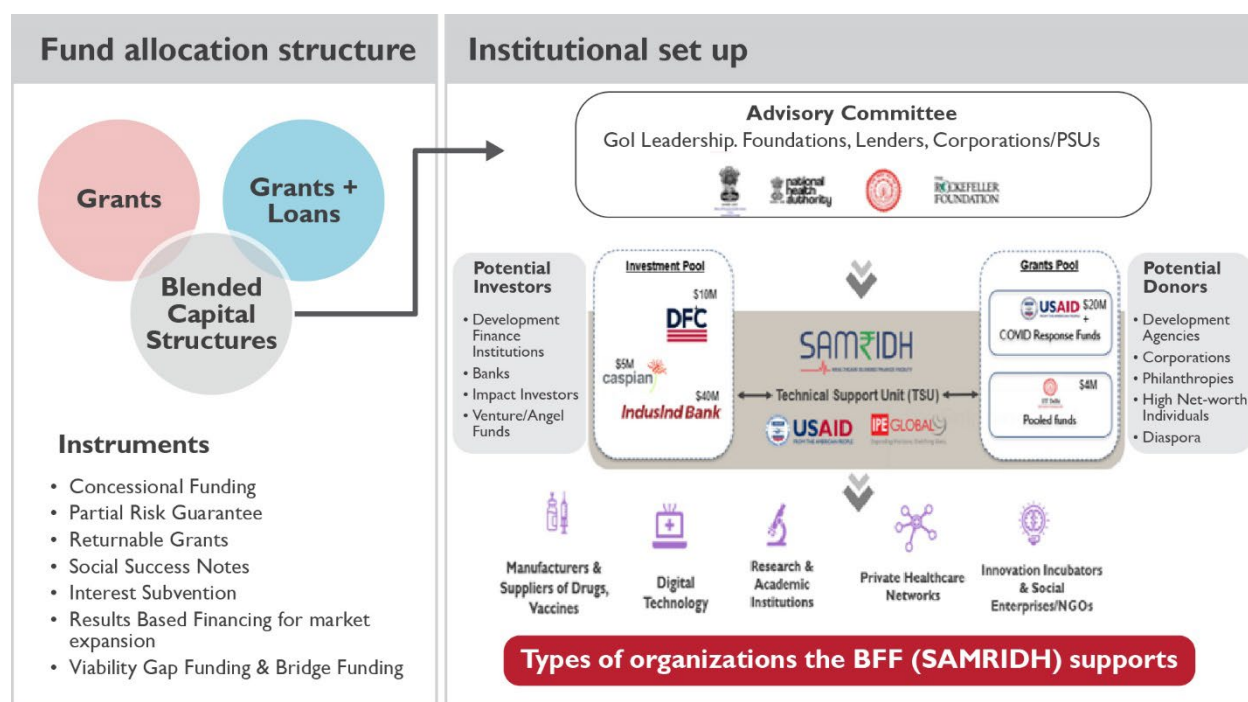


Figure 10: SAMRIDH Blended Finance Facility descriptive overview

⁶² https://samridhhealth.org/wp-content/uploads/2022/03/SAMRIDH-White-Paper_Digital_0222.pdf

⁶³ <https://www.convergence.finance/resource/blended-finance-vol.-1.-a-primer-for-development-finance-and-philanthropic-funders/view>

⁶⁴ Whether and how SAMRIDH might structure credit support to both for profit and not for profit entities is currently under discussion and beyond the scope of this paper.

Grant provision through corporate social responsibility⁶⁵

Conceptual definition. Corporate social responsibility (CSR) was introduced as a mandatory provision in India via the enactment of the Companies Act of 2013. Certain classes of companies have a statutory obligation to spend, in every fiscal year, at least 2% of average net profits from the previous three fiscal years on CSR projects geared toward social welfare activities.⁶⁶

Application criteria and approval. Companies must create a CSR committee to recommend to their company Board the projects and the amount to be spent on CSR. The Board must then plan, approve, execute, and monitor CSR activities. The GoI has no direct role in approving and implementing CSR projects. There is no formal application process; NGOs and other organizations need to network with companies to access CSR funding; they may attend CSR events or use various online platforms that attempt to connect companies with CSR opportunities. Activities funded must fall within the purview of the CSR activities listed in Schedule VII of the Companies Act, including rural development, gender equality, slum area development, and health and sanitation.

Interest rate and other fees. CSR is a grant-funding mechanism.

Duration. Project-dependent—funding duration is not stipulated by the Companies Act; the individual companies' CSR committees determine the timeline.

Pros. Health, Eradicating Hunger, Poverty, and Malnutrition was one of the most highly funded development sectors for CSR in FY20/21. NGOs should be able to make a compelling argument to companies to support TB eradication through their CSR efforts. As long as the CSR grant falls within the social welfare mandate, the funds can be used broadly and could potentially cover, for example, NGO startup costs required to provide TB services.

Cons. Currently, there is no standardized, nationwide application process for CSR funds, so NGOs seeking funding must proactively seek opportunities to network and develop relationships with companies. Smaller NGOs may face challenges in seeking these connections and building relationships, and companies may be more likely to fund larger projects. Furthermore, the timing of funding availability may be unpredictable and may not be aligned with the times when PPSAs and other TB NGOs face project-related financing needs. CSR funding must meet specific legal and regulatory mandates to be considered in compliance with the Companies Act. Finally, it is not clear that CSR funding would be available to for-profit PPSAs.

Market size and players. In FY20/21, a total of 18,012 companies participated in CSR, spending Rs 25,714 crore (approximately USD 3.1 billion) to fund 38,790 projects across 14 development sectors.⁶⁷ The top three companies engaged in CSR were Reliance Industries Limited, Tata Consultancy Services Limited, and Tata Sons Private Limited.

⁶⁵ This document does not view traditional corporate social responsibility through pure grant funding as innovative but as a blending instrument that, when combined with others, can be used to support transactions being part of broader financial models combining different sources of capital.

⁶⁶ Govt amends rules governing corporate social responsibility, PrepareExams. <https://www.prepareexams.com/govt-amends-rules-governing-corporate-social-responsibility/>

⁶⁷ <https://csr.gov.in/content/csr/global/master/home/home.html>

Revolving fund

Conceptual definition. As used in this report, a revolving fund is entrusted with the fiduciary and legal duty of administering financial resources to fund charitable activities, operating as a self-replenishing money pool and utilizing interest and principal payments on existing loans to issue new ones. Revolving funds are legally and financially separate from the organizations/institutions whose activities they financially support. Revolving funds will typically have their funds ring-fenced if they are housed within such organizations/institutions.⁶⁸

Revolving funds have typically involved governments, public agencies, international donors, and non-profit organizations in supporting development projects worldwide through direct support or program co-financing arrangements that must be repaid, with some return in many cases. According to the Council of Development Finance Agencies (CDFA), the revolving loan fund (RLF) is an application of the revolving fund concept formally used in practice within development finance and the economic growth industry as a primary lending instrument/option for businesses across sectors, which applies to the scope of this paper and will be used as a reference model throughout its remaining sections. RLFs have been used in various settings; figure I I provides a high-level overview of an adaptation of an RLF structure. It is important to note that this example from Tanzania also includes an element of blended finance with a combination of loan guarantees, commercial loans, and interest subsidies through performance-based grants. In this example, donors provided funds covering the first loss, thereby derisking loans for commercial lenders while subsidizing part of the interest incurred by providers. Guidelines and steps for starting an RLF can be found in Annex A.

⁶⁸ <https://www.unicef.org/media/126456/file/IF-global-revolving-fund-2022.pdf>

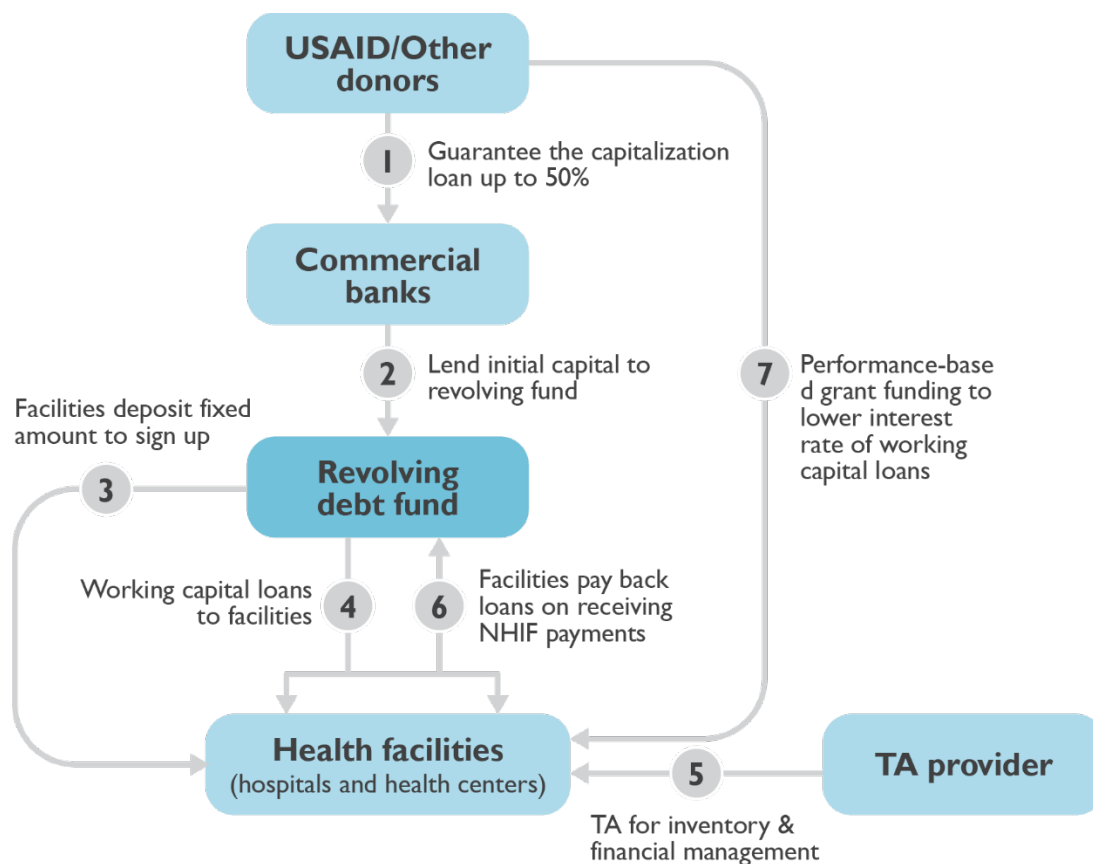


Figure 11: High-level design of a USAID working capital revolving fund in Tanzania combining capital from multiple sources. Source: USAID. <https://www.usaid.gov/sites/default/files/2022-05/Blended-Finance-Roadmap-508.pdf>

Duration. Repayments by borrowers of principal and interest on the investment allow the funds to revolve (self-replenish). However, since the loan repayment periods may vary (typically less than 2 years but sometimes as long as 10 years⁶⁹), planning periodic replenishments to operate after the initial capital has been deployed may be necessary. Additionally, the costs of operating a RLF as well as payment defaults by borrowers may make replenishment necessary.

Pros. RLFs have the potential to be more sustainable than traditional working capital loans since they often are coupled with technical assistance that helps borrowers (health facilities, PPSAs, or others) repay the loan and become self-reliant with only internal funds. In addition, loans from the RLF can be repaid and redrawn multiple times. Further, RLFs can be structured in various ways to suit the characteristics and needs of borrowers. While they also follow market interest rates, they can offer slightly lower rates to make them more attractive to borrowers.

Cons. Setting up an RLF can require significant structuring and transaction and operating costs. These can make the RLF an inefficient funding mechanism if the demand for TB diagnostic and care loans is limited to very small amounts and so scale is insufficient to justify the startup and operational costs.

⁶⁹ <https://www.worldbank.org/content/dam/Worldbank/Event/ECA/GN%20EERF%20final%20draft%20040614.pdf>

Further, ensuring compliance with tax and regulatory requirements might lead to additional costs and time. In India, for example, an RLF is legally obligated to comply with the 2013 Companies Act,⁷⁰ the 1961 Income Tax Act,⁷¹ and the Goods and Services Tax (GST) Act.⁷² These laws and accompanying rules regulate authorization to borrow, raise, or secure payment of money from domestic or foreign sources as a business or financial entity and determine which revenue, income, or funding stream is considered taxable as "profits and gains from business and profession" and what would qualify as a supply of services and therefore be subject to GST applicable rates.

Further, the lack of documented successes and the resulting long-term impact of revolving funds create a knowledge gap affecting the potential for further growth and uptake of such instruments by countries and programs looking for financial innovations to tackle development challenges. Documentation in the gray literature regarding revolving funds designed for health programs is limited, including on topics such as the range of experience on replenishments; how often revolving funds charge or do not charge interest; how often revolving funds have long versus short repayment periods; the typical ratio of revolving fund capitalization size versus loan size; and the range of funders of revolving funds. According to subject-matter experts consulted, since the inception of the Pan American Health Organization Revolving Fund for Vaccine Procurement in 1979⁷³ and the Drug Revolving Fund originating from the Bamako Initiative in 1987, many revolving fund models have been repurposed to adopt a broader health system approach beyond commodities and adapted to support private-sector health providers as businesses. However, we did not find any documented results published online from this work over the years. Documentation on experience, lessons learned, and, most importantly, the long-term impact of RLFs in the global health space is scarce. This information gap is partly due to the short-lived nature of RLFs, with many having their primary source of capital tied to time-bound projects. Should an RLF be chosen to support PPSAs, it will be important to track performance and record lessons to help build a better understanding of how such a mechanism would sustainably impact these structures' financial operations over time.

Market size and players. The revolving fund model has various uses and applications in India—from driving innovations in health care to supporting low-income patients. USAID and The Rockefeller Foundation financed an RLF through the BFF to support a COVID-19 vaccine delivery device (box 6). The Government of India has created revolving funds⁷⁴ in 13 central government hospitals to provide financial assistance to low-income patients in a scheme called Rashtriya Arogya Nidhi.⁷⁵

⁷⁰ <https://www.mca.gov.in/Ministry/pdf/CompaniesAct2013.pdf>

⁷¹ <https://incometaxindia.gov.in/pages/acts/income-tax-act.aspx>

⁷² <https://www.indiacode.nic.in/bitstream/123456789/15689/1/A2017-12.pdf>

⁷³ The PAHO Revolving Fund for Vaccine Procurement is a mechanism developed by the Pan American Health Organization in 1979 for the purchase of vaccines, syringes/needles, and cold chain equipment on behalf of country governments in Latin America and the Caribbean. https://www3.paho.org/English/ad/fch/im/Revol_Fund.htm

⁷⁴ This is a different model from an RLF because it operates as a revolving cash-flow instrument with replenishments coming from government transfers (Department of Health and Family Welfare) to public health providers through some form of service-level agreement, not loan payments from businesses acting as borrowers.

⁷⁵ <https://main.mohfw.gov.in/major-programmes/poor-patients-financial-assistance/rashtriya-arogya-nidhi>

Box 6: Case Study: Blackfrog Technologies Pvt Ltd

Investors and fund manager: IIT-Delhi, Caspian Debt & IPE Global

Non-commercial funder: USAID and Rockefeller Foundation

Launch Year: 2021 | Sector: Health care

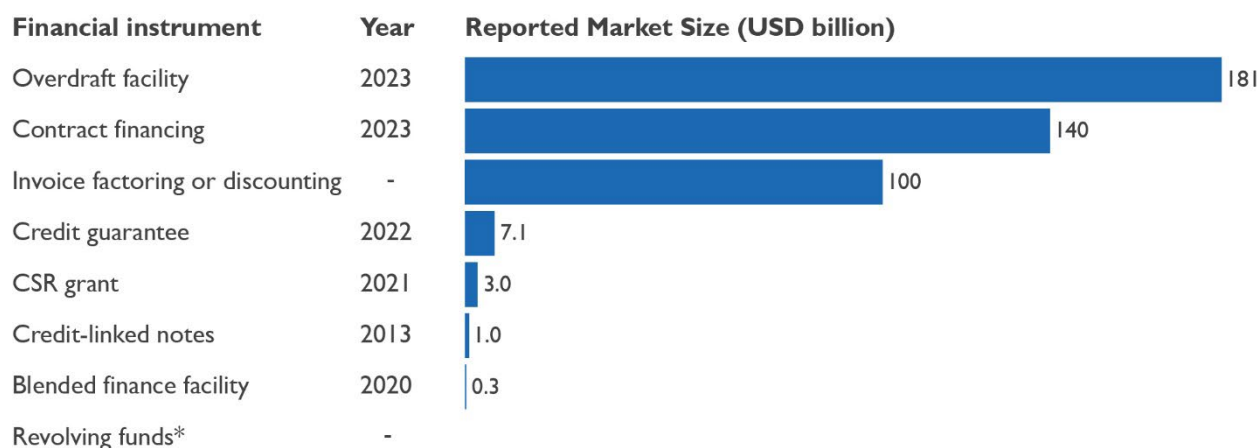
Total Investment Size: USD 200,000 mobilized through the following instruments: USD 71,000 in returnable grants; a USD 114,000 commercial loan backed by a partial risk guarantee; USD 15,000 in interest subvention (or interest buy down) to make the commercial loan more affordable.

Blackfrog Technologies is a health-tech company specializing in the last-mile delivery of medical supplies and biologicals. Their groundbreaking invention, EMVÓLIO, a portable, active cooling, battery-powered device, facilitates safe last-mile delivery of COVID-19 vaccines nationwide. Blackfrog needed capital to increase its manufacturing capacity and expand its presence to other regions. A combination of USD 71,000 in returnable grants with a guarantee-backed USD 114,000 commercial loan from Caspian Debt, a leading non-banking financial company, supported by an additional USD 15,000 in interest subvention allowed Blackfrog to mobilize a total of USD 200,000 to address the cash-flow crunch triggered by long working capital cycles, high up-front costs, and limited manufacturing capacity to scale up faster and achieve financial sustainability.

3. OPTIONS ANALYSIS

3.1. Considerations for an options analysis

Building from the initial in-depth desk review analysis, HS4TB's in-country and HQ technical team consulted with advisors to assess the feasibility and conditions for potential applications of existing and new (or adapted) financial instruments to PPSAs' financing needs. Figure 12 summarizes, by market size, the instruments used in India and designed for commercial, catalytic, and impact investing.



*not available

Figure 12: Summary of commercial, catalytic, and impact investing instruments in India by market size

Each of the financing instruments described above (invoice factoring, overdraft facility, credit-linked notes, and contract financing on the commercial side; and loan or credit guarantees, BFF, CSR grants, or RLF and on the non-commercial side) has advantages and disadvantages for PPSAs. Implementation, technical, administrative, regulatory, and political challenges can affect an instrument's potential to solve the most critical immediate problem: cash-flow disruptions due to payment delays. The section below, visually summarized in figure 13,⁷⁶ covers relevant considerations around timeline, feasibility, and the problem addressed. These will help to guide the decision-making approach and filtering process, informing the final decision on instrument selection.

⁷⁶ The decreasing number of financial solutions after being assessed against timeline, feasibility, and problem addressed reflects the filtering approach formal selection of instruments should adopt but does not necessarily imply that only one financial model will be selected. Further, as the selection process enters its final stages, additional factors must be considered, such as evaluation for suitability from a tax and regulatory perspective, which will be discussed in the next section.

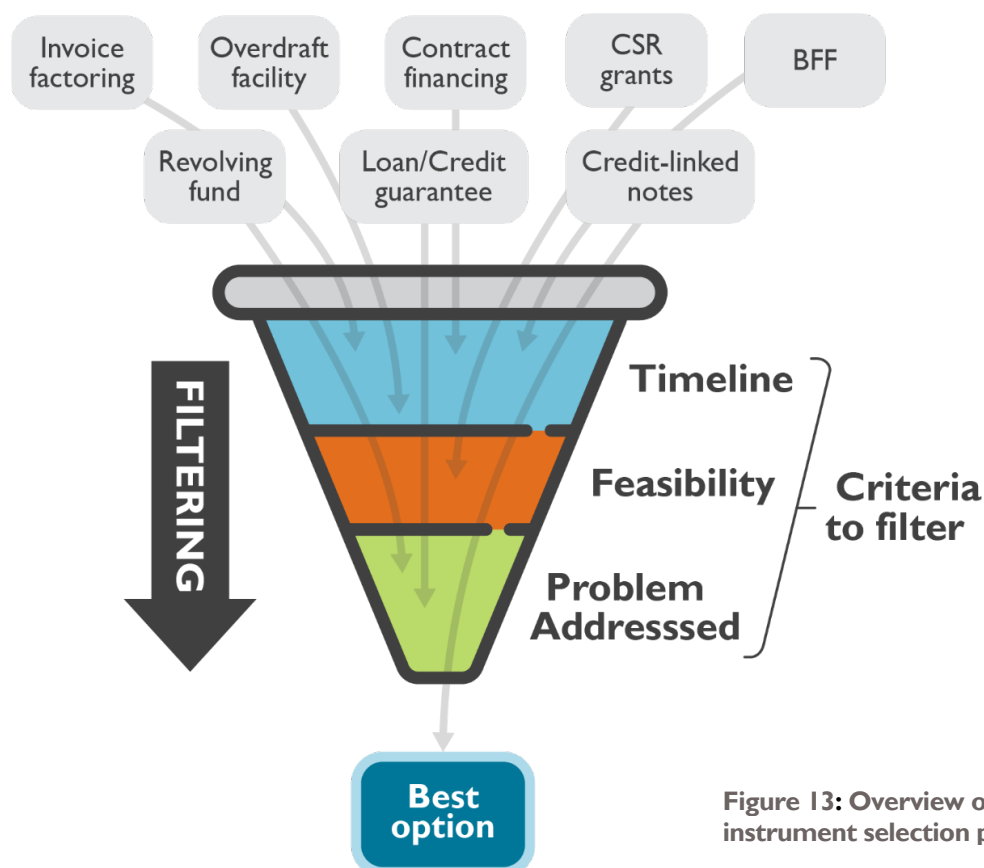


Figure 13: Overview of the financial instrument selection process

Timeline of implementation. A key component of HS4TB's mandate in India is to support improved payment processes for PPSAs and other organizations delivering on larger TB contracts so that they can provide the services stipulated in their contracts. While HS4TB is working to address payment delays with longer-term, structural solutions (such as improving the efficiency of the patient validation and claims process), we plan to pilot an initial financial instrument during the last quarter of the 2023 calendar year. One of the commercial mechanisms listed above—credit-linked notes—would require transaction scales above what would be feasible in the short term, even without considering the timeline of implementation, and they are therefore not discussed further.

We determined that involving commercial banks to devise other financial instruments is possible from an implementation timeline perspective, since many have already been used in the health sector. However, the risk of a lengthier process does exist due to the relative unfamiliarity of commercial lenders with PPSAs and the time it might take to identify a lender willing to work with them on reasonable commercial terms. Delays from adding a payment guarantee to a commercial loan would also need to be considered.

Despite the potential timeline challenges due to tax and regulatory compliance highlighted in section 2.2., a revolving loan fund capitalized only by social investments may seem to be a more straightforward and readily feasible short-term solution. Such an instrument would provide cash flow coverage to a broader, more diversified range of PPSAs. It can also be expanded over time to include other funders and funding sources, such as CSR, if the opportunity arises.

Feasibility. Financial products involving only commercial lenders may be less feasible in the short term because of potentially unaffordable commercial rates. Further, NGOs' lack of attractiveness as bank customers due to the small financing needed might result in a high effort-to-outcome ratio. Finally, adopting a fragmented approach in testing and underwriting new products one by one (with each commercial process being a new negotiation rather than a systematic solution) will increase transaction costs, take time, and require significantly more information about needs, risk tolerance, and more from both lenders and PPSAs. Based on the FY22/23 state plans and budgets, the total amount budgeted for PPSA contracts is relatively small in the commercial lending context—amounting to just under USD 2.75 million in total across the five states supported by HS4TB. The actual expenditures on PPSA contracts are even lower. These amounts may not be attractive to the commercial sector, particularly when split up across multiple small NGOs.

A number of PPSA organizations are NGOs. Many NGOs operate in a highly constrained financial and regulatory space with limited ability to meet the terms required to access commercial lending, take loans, or use other commercial-based financial solutions charging market-rate interests. Many NGOs rely on cost-reimbursable or other grants with insufficient margins to cover the cost of market-rate interest payments. Further, these NGOs would not have the resources and capacity (at least in the short term) without technical assistance to deal with the complexities of using multiple instruments and related blending mechanisms designed to jointly mobilize commercial and non-commercial capital.

Despite the successful application of innovative financing for health in India—notably, the SAMRIDH BFF—innovative financing efforts involving the public health sector remain largely nascent. International agencies and philanthropic donors are the primary source of catalytic funding that creates a platform for market-equivalent investments that mobilize private investment, but an "off-the-shelf" financial intermediary ready to act does not yet exist because the innovative financing market is still underdeveloped. The existing projects are often small due to risk-adjusted amounts authorized and specific to a particular sub-sectoral objective, even when donors and investors want to channel large amounts of capital toward market opportunities with a high social impact. The low monetary value of these opportunities may not be attractive enough, with few intermediaries in the market equipped to manage these financial flows effectively. As discussed above, we estimated a relatively low quantum for the PPSA contracts. As a result, taking on the transaction costs of a credit guarantee or of a new blended finance facility might not be an attractive proposition for third parties. However, if these high structuring costs could be reduced—for example, by agreeing with a lender on a standard financing product that all PPSAs and others might use—then commercial loans backed by credit guarantees might be a viable option moving forward. Given USAID's expertise and historical success with DCAs to mobilize private capital, discussions are ongoing to further explore potential adaptations that could act as viable risk-guarantee models.

Without necessarily eliminating these two non-commercial options for now (loan guarantees with or without a blended finance facility), the next section discusses the two remaining options that were found as potentially feasible in the short-term, given the information available and constraints described (i.e., a revolving loan fund and CSR grants).

Problem addressed. The initial problem we are addressing is payment delays to PPSAs that can result in falling short of the funds needed to cover operational costs. Payment delays can occur following invoice submission and/or during the wait time before PPSAs submit their first invoices (which can happen only

after the first contract milestone is achieved). In addition, PPSAs are required to pay up-front security deposits as high as 13% of the expected contract value,⁷⁷ which may take many months to be repaid by the Gol, without earning interest.

Bridge financing would provide an immediate, shorter-term solution to help PPSAs with both of these issues (delayed invoice payments and delayed return of security deposits), while implementing longer-term structural process improvements. A revolving loan fund could meet this need. The next sub-section offers relevant considerations if an RLF would be the selected approach. By contrast, CSR funding is insufficiently predictable, especially in terms of timing—the PPSAs require financing closely synchronized with the contract/invoice cycle. Therefore, this inherent unpredictability does not seem to put CSR funding in strong contention to become a viable bridge financing solution for this specific problem.

Political acceptability. The proposed solution would need to be politically acceptable to key actors in the Government of India and the state government officials involved in implementing the PPSA contracts. Through initial consultations, HS4TB ascertained that a revolving loan fund pilot could be an acceptable option for the Government. The revolving loan fund could be structured with or without the support of a third-party guarantor providing a loan guarantee. We discuss this further in the next section. As we continue an ongoing evaluation of financing options, we will keep relevant Gol officials at central and state levels closely involved to ensure the outcomes are politically acceptable.

3.2. Potential approaches to piloting a revolving loan fund

USAID has supported successful grant funding innovations (case study example in box 6, above) and RLF instruments,⁷⁸ which pave the way for new applications in this space. Revolving funds can be structured in various ways, some of which can bring in additional funding from new sources as needed (see figure 11 as an example structure). We see two likely working capital support arrangements to help finance PPSAs. The first is a TB revolving loan fund whose corpus would be provided by non-commercial entities. The second is a revolving loan agreement with a commercial entity, most likely a bank, whose loans to PPSAs would likely need to be partly "de-risked" by a third-party first loss default guarantee (FLDG)⁷⁹ and the interest rates of which would probably need partial subvention. These two sets of arrangements are not mutually exclusive, and the choice of arrangement will depend on the criteria above and further discussions with donors and banks to sound them out on their interest in the support requested and specific commercial terms offered in the case of a revolving loan agreement. For purposes of the discussion below, we refer to both these structures as RLFs. Odisha and Andhra Pradesh are possible

⁷⁷ Earnest money deposit/bid security (usually 2%–3% of expected contract value) submitted by bidders while responding to requests for proposals and security deposit/performance security (5%–10% of contract value) submitted by the bidder before signing the contract and paid back after successfully completing all contractual obligations can represent significant amounts affecting market entry.

⁷⁸ See USAID's Blended Finance Roadmap for Global Health, page 24. Country Deep Dive: Tanzania Working Capital Revolving Fund. <https://www.usaid.gov/sites/default/files/2022-05/Blended-Finance-Roadmap-508.pdf>

⁷⁹ An FLDG is a financial service involving a contractual agreement in which a third party guarantees to compensate the lender originating the loan for losses caused by the borrower's default, up to a certain percentage or limit. <https://bfsi.economicstimes.indiatimes.com/news/policy/how-the-rbis-fldg-guidelines-are-set-to-transform-digital-lending-in-india/101400979>

candidate states to pilot a financing mechanism. Figure 14⁸⁰ provides a high-level overview of the preliminary structure being considered and under ongoing discussions.

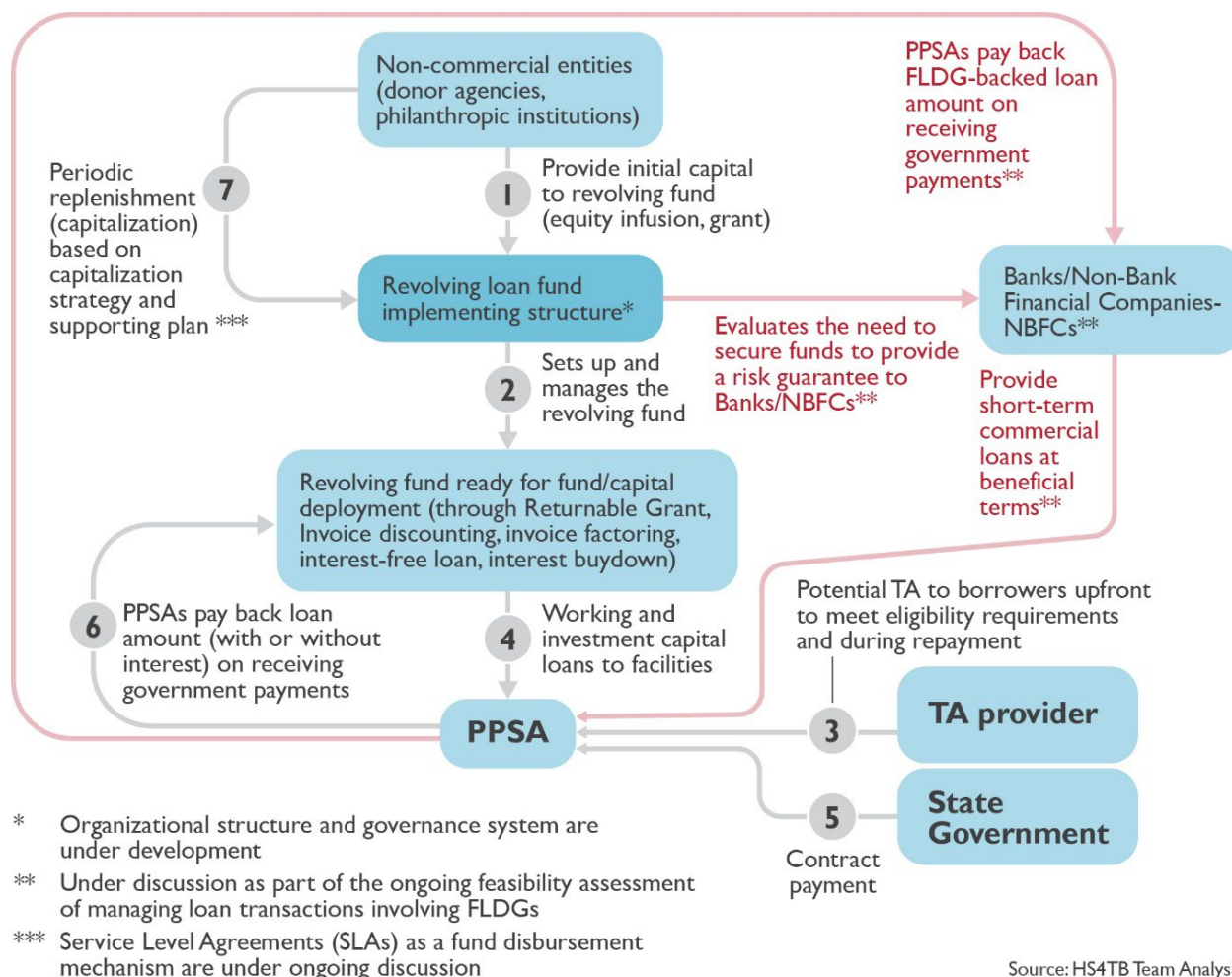


Figure 14. Preliminary high-level design of potential TB revolving loan fund

HS4TB is considering two structure design options⁸¹ and associated capitalization and fund deployment modalities for implementing the TB RLF. These options are currently under evaluation for suitability from a tax and regulatory perspective. The evaluation uses criteria based on the following operational aspects:

- Nature of fund holding agency and corresponding capitalization approach
- Bureaucratic complexity
- Cost of management of the fund
- Tax and compliance burden (including compliance with India’s Foreign Contribution Regulation Act)
- Implications for PPSAs (mostly tax-related) and funders

⁸⁰ Although the money in an FLDG that acts as a guarantee does not itself revolve, the FLDG in figure 14 is described as one part of a fund deployment modality/mechanism. After specific prerequisites are met, such as discussing with lenders and securing funds to provide risk guarantee, this would allow more options to move capital from the revolving loan fund to borrowers (PPSAs).

⁸¹ Statutory elements and considerations driving the RLF implementation design structure are under ongoing discussions.

USAID and HS4TB's technical team are considering multiple instruments as part of the TB RLF instead of one under a single standalone arrangement. Capitalization and fund deployment could occur using the following selected (non-exhaustive) list of financial instruments⁸²:

- Service level arrangements (SLAs)⁸³
- Returnable grants
- FLDG
- Invoice factoring
- Invoice discounting
- Interest-free loan
- Interest buydown

In an initial consideration of legal and regulatory issues for some of these instruments, the conclusions differed depending on the fund-holding entity (box 7). If the funds are held by a for-profit, India-based entity (such as MSH India⁸⁴), the options can be summarized as follows:

- **Interest-free loans** by a for-profit company such as MSH India are prohibited under the Companies Act.
- **Service-level agreements** cause problems for not-for-profit PPSAs to justify their charitable status before the tax authorities, lead to depletion via GST leakage, and do not provide a way for funds to flow back to MSH India.
- Under the same clause of the Companies Act as cited above, **invoice discounting** would require MSH India to charge above-market-rate interest and thus not achieve the objective of providing low-cost funding to PPSAs.
- **Returnable grants** might work for non-profit PPSAs, though they would not result in any leverage of the funds available from MSH India. For-profit PPSAs would struggle to justify returnable grants, as they would be liable to pay tax when they receive the grant and would not be eligible to claim a deduction when repaying.
- An **FLDG** does not result in tax liabilities and potentially allows for leverage of the initial MSH India capital. In addition, the loans could potentially be issued prior to invoicing and thus cover some of the earlier funding shortfalls experienced by PPSAs. Further clarification is needed to determine the transaction cost for negotiating each loan, as a percentage of the size of each loan; the cost required to subsidize the interest payments; and what an acceptable loan-to-guarantee ratio would be from a lender's perspective.

⁸² These mechanisms shortlisted (except SLAs) are to some extent adaptations of the ones presented in Sections 2.1. and 2.2.

⁸³ An SLA is a contract between a service provider and its customers that documents what services the provider will furnish and defines the service standards the provider is obligated to meet. An SLA is only considered in this document as a possible way to distribute money into the RLF but is not a suitable fund disbursement mechanism from the RLF. Discussions on fund capitalization options are still ongoing at the project level.

⁸⁴ MSH India Health Management Private Limited ("MSH India") is a local Indian subsidiary registered by MSH, Inc. (which is the prime Contractor for HS4TB) as the entity to conduct HS4TB India activities in compliance with India law.

If the funds are held instead by an academic fund holding agency (FHA), many of the pros and cons are similar to those discussed above with MSH India as fund holder. However, the following differences emerge with an academic FHA:

- The Companies Act provision requiring a minimum interest rate no longer applies when an academic institution is the FHA, which makes **interest-free loans** and **invoice discounting** more feasible.
- **Returnable grants** also become more feasible because the for-profit PPSAs can now claim the returned funds as a tax deduction (which they could not when returning funds to MSH India).
- The considerations for an **FLDG** remain largely the same.

Box 7: Choosing the right type of fund-holding entity matters

The final decision on the best financing mechanism becomes a trade-off between ease of implementation through an academic FHA versus access to larger pools of capital via commercial banks. The key benefit of an academic FHA is that it allows for concessional financing, making mechanisms such as interest-free loans, invoice discounting, and returnable grants feasible (these would otherwise not be allowed under the Companies Act). These mechanisms can be more simply structured because they do not require working with a third-party lender. However, the amount of financing available to providers is constrained by the amount of donor funds available (\$500,000 in our case). On the other hand, mechanisms that partner with a commercial bank unlock access to more debt financing (lending), which is a significant advantage in meeting PPSA borrowing needs. This type of arrangement does introduce greater complexity and, therefore, increased transaction costs for setting up the terms and structure of the mechanism.

Of note, while helping small businesses operate in the short run, interest-free loans may have the long run impact of crowding out commercial funding and preventing a financing market from growing. A loan interest buydown⁸⁵ allowing gradual phase-out of donor support would have a less distortive effect on the market for sustainable TB financing. It typically involves three parties—the lender, the borrower, and the donor—that would be willing to pay all or part of the interest the loan incurs. As donor funding decreases, borrowers would simultaneously cover higher interest payments at or slightly below market rates over time. Further, such a phased approach would provide a platform to gradually build lender-borrower rapport as PPSAs mature and become more capable of taking on loans that are on or close to commercial terms.

Initial investments would come from pooled, non-commercial resources that remain available to finance PPSAs' working capital needs as long as funds are replenished via repayment by the PPSAs, through a commercial lender with de-risking through an FDLG, or some combination of the two.

For a purely non-commercial fund, initial startup capital would come from traditional grants or other donor mechanisms. HS4TB would secure capital for a pilot of the fund, set up governance and management processes covering legal, funding, and transaction aspects of financing, set up partnerships with philanthropic funders (for example, explore financing sources for scale-up), and provide additional

⁸⁵ An interest buy-down structured within an FLDG agreement is currently under discussion. One option is a performance-based adaptation of the interest buy-down, in which achievement of pre-established targets/milestones/performance triggers disbursement of grant-based funds to cover all or part of the interest a loan incurs. This can help to align incentives.

technical assistance as needed.⁸⁶ PPSAs would receive working capital loans to keep their operations running while waiting for repayment from the government. As mentioned above, leveraging private capital from commercial banks is feasible. However, given the challenges highlighted in the previous section, carefully evaluating the need to collaborate with commercial lenders is critical if the TB RLF will deploy capital to PPSAs using FLDGs.

Setting up the TB RLF in India will require a number of steps, summarized in figure 15 below.

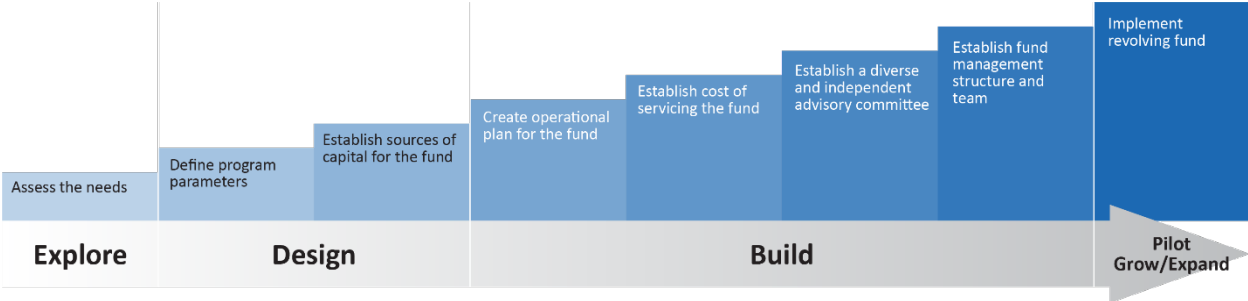


Figure 15. Steps to creating a revolving loan fund

The **first step** is to assess the needs and understand the gaps in the current funding sources for PPSAs. Other critical information for PPSAs required at this stage includes the amount of financing needed, the anticipated loan size, and any associated terms. We are currently conducting a detailed financial assessment of the PPSAs (see Annex B for the assessment template).

As a **second step**, program design parameters must be determined. Key specifications include deciding whether a structure that could host the TB revolving function already exists versus creating a new entity, making a final choice about which financial instrument(s) to use (e.g., returnable grants versus commercial loans; the advantages of using an FLDG), identifying what types of entities are eligible to borrow funds, determining how to avoid moral hazard,⁸⁷ and defining eligible and ineligible uses of funds. Parameters such as the timing of fund access by PPSAs, the number and frequency of drawdowns, and the authorized amount per loan are also important. Further, essential loan terms to consider should include the interest charged, earliest date/time of repayment, maximum and minimum loan amounts, contractual provisions to mitigate against delinquency, and specifications on an adequate loan loss reserve maintained by the fund to cover any default situations.

The **third step** involves establishing sources of capital for the fund, which is essential to ensure adequate pooling capacity. An adequate funder or resource mapping exercise to support this process would require collecting donor-specific data. Information required includes, but is not limited to, who (or what) the sources are, the amounts and the periodicity of funding coming from each, and regulation and limitations (if any) associated with the use of funding from each source (i.e., CSR or international donor requirements).

⁸⁶ At the time of writing this document, the structure and administration of the revolving loan fund remain under discussion.

⁸⁷ For example, if funds are provided interest-free, either for-profit or not-for-profit entities may wish to access them even if they do not need them, or for longer than they need them, as a hedge against inflation. Measures to mitigate against such possibilities will be required.

Creating an operational plan for the social investment RLF, as the **fourth step**, should include detailed policies and procedures for fund management.

As highlighted in earlier sections, the structuring, setup, and management requirements can significantly impact the borrower's cost of funds through innovative financing mechanisms. As the **fifth step**, determining the costs of servicing the fund is critical. Estimating the overall cost amount to manage this RLF and ensuring that adequate funding arrangements (who, how, how much, and how long) are in place to support these costs sustainably are fundamental aspects to cover in this process.

The **sixth step** is establishing a diverse and independent advisory/review committee with decision-making power on whether to fund an application. Such a governance structure would ensure that funded applications reflect alignment with the program's focus and match eligibility criteria.

Establishing a management structure and team for day-to-day operations and tasks associated with the RLF is critical as the **seventh step**. A legal entity acting as a fund-holding agent within a hosting organization must have full authority over such a structure. Associated responsibilities would include but are not limited to managing the fund process, monitoring the disbursements and repayments, planning periodic replenishments to operate after the initial capital has been deployed, and others.

We are ending the section emphasizing how long-term sustainability considerations drawn from best practices must drive our reflections and collective thinking as we take concrete steps toward designing what implementing and piloting a TB RLF in India would look like. Annex C contains best practices assessment questions critical to ongoing reflections for starting an RLF, tracking results and impact, targeted beneficiaries, financial risk management, and fund administration policies. Further, we explored the capitalization component of managing RLFs in more detail in Annex D, an area lacking documented evidence from best practices but critical to financial sustainability. Box 8 summarizes the key takeaways from these industry standards.

Box 8: Key takeaways from documented best practices for revolving loan funds

- In creating a loan fund, a clearly focused mission reflected in its organizational structure and governance system, good technical assistance, and solid initial capitalization are key.
- Capitalization planning outlines a rational and specific path to funding and helps identify strategies and potential partners that can drive sustainable financial growth.
- Successful funds start with simple, user-friendly procedures and then diversify their investor base, lending products, and practices.
- All types of funds must ensure that the collateral for each loan will cover the costs of a possible default, and delinquencies should be monitored as closely and as soon as possible.
- The longevity of a fund can be promoted through investment in information technology and staff capacity so that the fund can handle increasingly complex financing deals and reporting requirements as its investor base and portfolio of financial products grow.
- Revolving loan funds should consider seeking commercial capital partners (banks) for four reasons: liquidity, leverage, access to technical financial expertise, and positioning borrowers for future bank relationships.
- Significant technical assistance to the borrowers is needed upfront so they can meet eligibility requirements (get their documentation ready for commercial loans) and, during repayment, can grow and sustain a capital market for TB treatment and diagnostic services.
- Increasing the borrower base will ensure a more efficient distribution of operating costs and generate economies of scale.

Sources: *Housing Assistance Council, Center on Social Innovation and Finance, Council of Development Finance Agencies, HS4TB analysis*

4. LOOKING BEYOND THE PILOT: A PLATFORM PROVIDING SUSTAINABLE INNOVATIONS FOR FINANCING TB IN INDIA

As highlighted in the introduction section of this document, a sustainable and scalable capital market for financing TB services that is accessible to private and social sector organizations is not possible without private capital inflows. This last section suggests that aiming for a broader range of financial instruments to attract a diversified investor base is a best practice toward sustainability and growth that should be pursued as innovative financing initiatives under considerations for TB in India, such as the RLF or the FLDG, gain traction and increase buy-in. As we look into the future, no financial products available in India should be ruled out without further exploration and feasibility assessments, as the capital market for TB financing is expected to evolve over time due to the project's efforts.

Therefore, we believe that all the financial instruments described in this report are worth considering, despite the issues described above, as they can become more suitable in the long term and promote the entry of more diverse players into the market. As we gather more information to approach commercial lenders, a strategy of relying on a broader and more diversified investor base and set of financial instruments would allow the TB program to fully articulate PPSAs' needs and address broader programming issues related to financing TB private providers. According to project data (May 2023), 91% of all active contracts with private TB providers across the five priority HS4TB states (105 out of 115) are non-PPSA service contracts of different operation sizes and values. Further, the changing landscape of contract management is sensitive to administration changes and can create different needs for PPSA and non-PPSA service providers over time.

HS4TB has the potential to make a case for an innovative financing platform in the longer term for the delivery of TB services in India—a structured financing model⁸⁸ that can combine multiple financial instruments in use in India to meet the varying needs of partner organizations engaged in TB contracting with the Gol (figure 16). Addressing PPSA and non-PPSA issues will require financial solutions that are flexible in scope and purpose to address a range of capital shortages. Introducing the concept of a structured finance model, where multiple financing instruments could be considered to target cash flow disruptions and the limited investment capital of private TB providers, could provide a sustainable and scalable solution to support PPSAs and other partner organizations across the country.





⁸⁸ A structured finance model is designed to deploy funds/capital through transactions involving a variety (blend) of financial instruments.

Key supply-side challenges faced by PPSAs		Financing instruments			
Shortage in working capital Low operating cashflow buffer	Limited capital: Timing mismatch between invoice payments and funding needs for daily operations.	Invoice factoring Access to liquidity using outstanding invoices as collateral	Overdraft facility Credit agreement allowing account withdrawal of more money than available, to a limit	Contract financing Lender advances a portion of the amount for an awarded contract, at interest	
	Access to capital: High perceived risk for lenders due to lack of adequate collateral	Loan guarantee Creditworthy third parties guarantee the debt of the borrower	Revolving Fund Capital investment from donors pooled into a revolving fund		
Shortage in investment capital Funds for startup investments are not available	Limited capital: Inability to commit or unavailability of resources for new investment to meet contract and service delivery requirements	Blended Financing Facility products Mechanism enabling development & philanthropic funding to mobilize private capital to support development outcomes		Credit-linked notes Allows the issuer to transfer specific credit risks to credit investors	
	Access to capital: High perceived risk and low long-term returns for many traditional lenders seeking short-term high ROI	Ministry of Micro Small & Medium Enterprises (MSME) financial service access programs Government programs supporting NGOs and SMSE access to capital through a range of financial services	Grant provision through CSR CSR mandated by the Indian government can be used to finance capex for non-profit organizations		

Figure 16: Indicative options for an innovative financing structured model as the capital market for TB in India grows

Non-commercial resources can be leveraged in the medium- to long-term to develop a multipurpose structured finance facility able to crowd-in commercial investments and sustainably supply risk-adjusted capital to underserved TB private providers, yielding high social impact (table 1). However, adopting a structured finance approach to TB financing is a complex task that requires feasibility analyses and technical design of the blending mechanisms defining how different instruments will be used.

Table 1: Benefits of a structured finance model

Benefit	Description
Increase funding for TB 	<ul style="list-style-type: none"> Identify additional private capital Redeploy more philanthropic and public funding towards the TB program
Improve sustainability of investments in TB 	<ul style="list-style-type: none"> Use donor capital to attract private investment in TB Structure so that private investment remains even after donor exit
Stimulate innovation in products and services 	<ul style="list-style-type: none"> Incentivize investment in new products and services, especially to reach underserved segments of the population
Develop local capital market for TB providers 	<ul style="list-style-type: none"> Improve access to local capital for private TB service providers

Building evidence from program implementation is a critical first step for HS4TB to identify, test, pilot, and adjust innovative approaches to TB financing in India while leveraging more accessible non-commercial start-up capital. Further, HS4TB can provide the adaptive platform and proof of concept needed to home in on changes emerging from implementation knowledge, suggesting new financial solutions through development capital and leading to future adaptations allowing to further crowd-in the local lenders and private investors. A more robust non-commercial capital market for TB financing as a result of the project's support would mark an important steppingstone in efforts to create more attractive investment opportunities for the commercial lending community in India in the long term.

ANNEX A. STARTING A REVOLVING LOAN FUND: GUIDELINES AND STEPS⁸⁹

1. Research existing RLFs and compile samples of application forms, program guidelines, and other materials.
2. Invite lenders and potential borrowers to participate in the design process.
3. Establish the purpose of the RLF (following a needs assessment).
4. Set the eligibility requirements for borrowers.
5. Set criteria, guidelines, and scope for providing technical assistance to borrowers to meet their eligibility requirements.
6. Determine the allowed uses of funds as well as prohibited uses.
7. Set a minimum and maximum amount for the loans.
8. Decide if existing equity, collateral assets, or other sources of funds must match the loans.
9. Determine the length of the loan term, which may vary based on the use of the loan (coverage of operational costs vs. investment in long-term assets such as equipment).
10. Establish an application fee, origination (account creation) fee, and policies regarding transaction costs to secure a loan.
11. Define the default and delinquency terms.
12. Decide if the interest rate will be variable or fixed and whether the rate determination will be project-based.
13. Develop the loan application form.
14. Create a short pre-application form or checklist to help borrowers determine if they are eligible.
15. Set up a committee to review loan applications.
16. Determine the administrative duties and staffing needs associated with the program.
17. Promote the RLF and capitalize with funds from grants and individual donations.
18. Provide loans and technical assistance to borrowers.

Source: Council of Development Finance Agencies

Note: This list applies if the revolving loan fund is using an approach such as returnable grants. But if it is using FLDGs, then a number of these functions (such as steps 4, 7, 8, 9, 10, 11, 12, and 13, for example) will be with the commercial banks, not with the RLF itself.

⁸⁹ CFDA. <https://www.cdfa.net/cdfa/cdfaweb.nsf/pages/rlffactsheet.html>

ANNEX B. PPSA RISK-PROFILING TEMPLATE

For either a revolving loan fund that takes on projects with above-average risk or risk-conservative traditional lenders, borrowers are held to standard financial requirements in loan security. The information collected, processed, and presented in the PPSA risk-profiling template below will allow the HS4TB project to prospectively explore PPSAs' financial situations regarding solvency and determine their ability (or inability) to comply with these requirements, thus safeguarding access to working and investment capital. Further, the outputs of this template will allow us to build financial risk profiles that serve as an evidence-based reference point to set up a revolving loan fund with financial products designed to fit various financial situations, levels of risk, and therefore needs. Such evidence will also be valuable when evaluating potential collaboration with banks or other commercial lenders for products such as FLDGs.

Notes on the tool:

- A number of the indicators have scoring criteria. Of the exceptions to this, indicator 10 is contextual (qualitative) and, for the remaining indicators without criteria, absolute numbers reflecting best practice and industry standards do not exist or are not published in India. As part of the ongoing financial risk profile assessment, we will compare these indicators with the performance of other organizations with similar scopes of operation and considered top tier within the industry. Collaborating with and leveraging private lender expertise can also help us better understand what these risk levels would be in practice for India.
- Indicators 5 and 10 measure similar things, but indicator 5 is the actual metric and indicator 10 captures the organizational risk (or strength) behind the metric.
- In terms of the use of the tool, if a PPSA is scored as financially vulnerable, that means it is less likely to be prioritized for a loan because it is at risk of not paying that loan back. Using this tool, PPSAs can also be paired with platform and fund modalities that matches their risk profile. Commercial lenders will always conduct their own assessment and due diligence based on their organizational requirements. However, having these outputs readily available (as summary financial data sheets) will help open and build from preliminary discussions with lenders that would otherwise be difficult to even start.

Risk Assessment Tool

Agency Name

Type

Prepared by

Checked by

Date of completion

SN	Activity to be Evaluated	Organization Procedures and Practices				Level Number
		Level 1	Level 2	Level 3	Level 4	
Type of Institution						
1	Total Turnover (per Annum)					
2	Geographical coverage (# of States / # of districts)					
3	PPSA budget as a proportion to total annual turnover (%)					
4	Advances available from State (% of annual contract)	50% or more	25-50%	25% or less	0%	
5	Cash/Resources on hand	Cash flow meets all obligations, and the organization maintains funds in reserve.	Cash flow allows for timely payment for all expenses.	Priority payments (payroll and related taxes, rent) are always paid on time, other payables are occasionally delayed.	Cash resources are scarce - payments are sometimes delayed due to cash flow limitations.	
6	Monthly cash burn (fixed+variable)					
7	Average payment receipt time (in days)	30 days or less	30 - 60 days	60 - 90 days	More than 90 days	
8	Vacancy (%)					
9	Attrition (%)					
10	Organizational reserve policy	Organization is able to establish a reserve policy that specifies a minimum of 3 months of operating expenses to be held in reserve and is able to maintain those levels	A reserve policy is established and the organization generally can maintain these reserves	Reserve policy is established but an organization does not have adequate cash flow to maintain designated reserves.	No reserve policy established.	
11	Operating cash reserve buffer (or cushion) time					
12	Total debt to cash flow					
13	Alternate sources of funds	4 or more different sources of funds.	2-3 different sources of funds.	One other source of funds.	No other sources of funds.	
14	Debt ratio					
Total of Levels						0
Overall Risk Score						

ANNEX C. SUSTAINABLY SETTING UP A MISSION-DRIVEN REVOLVING LOAN FUND: BEST PRACTICE ASSESSMENT QUESTIONS⁹⁰

■ Origin and need for a revolving loan fund

- What is the purpose of starting the revolving loan fund? How is it going to be capitalized initially? What is the intended composition of its governing body? Will this composition change over time?
- What is the structure of the staff and the scope of its current activities? What kinds of financing service products will it offer in the short and long term?

■ Results and impact

As a development-based/focused investment instrument, revolving loan funds are expected to result in public goods through projects. Therefore, borrowers must demonstrate contribution to social impact and report on related performance measures established by the loan administration structure.

- What social and financial performance indicators will the loan fund track over time?
- What are the expected social and financial impacts of the loan fund?

■ Targets/beneficiaries

While revolving loan funds take on projects with above-average risk, borrowers are held to standard financial requirements in loan security. Before a loan is issued, a business or prospective business usually supplies key financial documentation playing an important role in the outcome of the loan application.

- What are the characteristics of the borrowers and the financial requirements needed from them?
 - Business plan
 - Business experience and management information
 - Credit history and financial statements
 - Sufficient collateral to repay bank and RLF funding
 - Other personal or donor-based guarantees on the project
 - Cash flow projections

■ Financial risk management

- What is the percentage of loss reserves (capital set aside for coverage of potential losses on loans) over loan principal outstanding? What is the percentage of delinquent payments and defaults over loan principal outstanding? How diversified is the loan fund's portfolio (i.e., does it have different types of loans with different levels of risk so that the lower-risk loans compensate for the higher-risk loans)?

⁹⁰ Adapted from: Best Practices in Revolving Loan Funds for Rural Affordable Housing. Housing Assistance Council. https://ohiohome.org/opc/HAC_RevolvingLoanFunds.pdf

■ **Regulations around fund administration policies/practices**

- What is the annual growth in fund capitalization? What is the average number of investors and average investment size each year? What are the average rates and terms of investments?
- What percentage of the loan fund's operating budget is self-generated (i.e., funds from fee-for-service income, prior fiscal surpluses, etc., that are not dependent on outside sources)? What is the percentage of equity over total loan capital?

ANNEX D. CAPITALIZATION IN THE CONTEXT OF A REVOLVING LOAN FUND⁹¹

Definition

Capitalization generally refers to the initial funding used to start or launch a new revolving loan fund. It is also associated with periodic replenishments allowing the fund to sustain and grow its scope of operations after the initial capital has been deployed.

How to approach revolving loan fund capitalization: key questions and considerations

■ Determine your needs for capitalization

- Is there a demand for your products?
- Are you capital constrained?
- How much are you trying to raise?
- Do you need debt, equity, or both?
- Do you need to raise reserves?

■ Understand the pros and cons of various sources of capital

- What is your history of raising funds? What are your envisioned debt-to-equity ratios?
- What do investors look for before they invest?

■ Develop a capitalization strategy and supporting plan

- One size does not fit all—a capitalization strategy must fit your needs and your particular situation.
- Do you have a capitalization plan that outlines a rational and specific path to funding and helps identify strategies and potential partners that can drive sustainable financial growth?

How are revolving loan funds typically capitalized?

■ Borrowed capital (assets/cash acquired through debt financing)

- Unsecured Senior Debt,⁹² Subordinated Debt⁹³
- Secured Debt

⁹¹ Adapted (unless referenced otherwise) from Swack M., Capitalization Strategies: Raising Debt and Equity for CDFIs. 2016. Center on Social Innovation and Finance. Carsey School of Public Policy at University of New Hampshire. https://www.cdfifund.gov/sites/cdfi/files/documents/capitalization-strategies_webinar_2.23.2016.pdf

⁹² Borrowed money not secured or supported by a collateral, guarantee, letter of credit, or other form of credit enhancement. Senior unsecured debt holds claims against general assets (versus specific liquidatable assets in secured debts) owned by a company and is the first debt repaid in the event of default or bankruptcy.

⁹³ Unsecured loans or debts repaid after senior debtors are repaid in full in the event of default or bankruptcy. Subordinated debts rank below senior debts and have less priority with respect to claims on assets or earnings. [https://www.investopedia.com/terms/s/subordinateddebt.asp#:~:text=Subordinated%20debt%20\(also%20known%20as,also%20known%20as%20junior%20securities](https://www.investopedia.com/terms/s/subordinateddebt.asp#:~:text=Subordinated%20debt%20(also%20known%20as,also%20known%20as%20junior%20securities)