Impact Linked Debt Instrument: Pay for Success

Company Overview: Indian School Financing Company (ISFC) provides schools, especially those with limited access to credit, with financial resources to improve infrastructure and increase the quality of education offered.

The Instrument: MSDF worked with ISFC to create a new financing mechanism that linked learning outcomes to financial incentives for the affordable private school (APS) sector. The foundation lends to ISFC, which, in turn, provides a three to six year loan to APS at a variable interest rate. At the beginning of the loan, an independent agency assesses learning outcomes and sets a baseline for the school. After two years, an end-line assessment is conducted. If the school meets its targets, it can realize interest rate rebates of 5%, or 10% of the loan amount. This reward payment is adjusted in accordance with ISFC’s interest payments to the foundation (i.e., the foundation absorbs the cost of the reward only when there is a demonstrated achievement of learning targets), while the principal gets repaid fully. Its innovative design ensures that the foundation pays only for demonstrated outcomes, while incentivizing the APS sector to prioritize learning improvements.

Guarantee

Company Overview: BASIX Sub-K iTransactions Limited (Sub-K) provides a mobile technology based transactional platform for access to digitized services to residents of rural, urban, and semi-urban areas. It offers banking services, savings, NREGA and other government payments, money transfers, utility payments, and prepaid mobile top-ups through a network of mom N pop outlets.

The Instrument: MSDF offered a corporate guarantee on behalf of Sub-K to a non-banking financial company in India, to enable Sub-K to avail a short term (6 month) loan to bridge the timing to its next equity fund raise, which was already underway and is near finalization.

Impact Linked Debt Instrument: Pay for Success: Leveraging Commercial Debt

Company Overview: Varthana (Thirumeni Finance Private Limited) is a non-banking financial company (NBFC) headquartered in Bangalore, dedicated to transforming affordable private schools in India. The core of Varthana’s business is focused on providing infrastructure and project loans to help affordable private school entrepreneurs grow and improve their schools.

The Instrument: MSDF has committed USD 3M over 4 years, as part of a US$9M impact-linked funding instrument that aims to achieve meaningful improvement in learning outcomes among 337 affordable private schools (APS), impacting 200,000 students. MSDF committed USD 2.2M in the form of a variable rate loan and $0.8M in the form of a contract for services. In addition, the program leverages $6.2 million in commercial financing. As part of the program, Varthana is selecting and on-boarding affordable private schools across 11 cities in a 2-year, assessment-linked reward program wherein they offer the schools a 2-4 years loan using the debt-funding from the commercial bank and MSDF. At the beginning, an independent agency assesses learning
outcomes and sets a baseline for the school and thereafter conducts assessments at the beginning and end of the year for a period of 2 years. Based on the improvements and school meeting its target of improvement in learning outcomes, it receives a rebate in its interest up to a maximum of 10 percent, which is funded by a rebate in the interest on MSDF’s loan. In addition, Varthana also receives a financial reward linked to the school’s reward given the support it offers schools from its Beyond Loans program. Varthana’s Beyond Loans business unit provides continuous, hands-on support on improving learning outcomes through dedicated education specialists working directly with the schools. It also links the schools to a curated set of empaneled vendors whose products have demonstrated a proven track-record in improving learning outcomes.

An SSIR article detailing the above model is available here: https://ssir.org/articles/entry/a_new_impact_investing_model_for_education#

Encouraging Product Innovation

**Company Background:** Shiksha Finance (Shiksha), a Chennai-based school financing and student financing company.

**The Instrument:** MSDF has committed a loan of USD 1.5 M to Shiksha in the form of a 3 year NCD with the objective of being exclusively used for piloting a new product of personal loans of INR 10-30 thousand offered to parents in Shiksha’s client schools at 25%-27% annual interest rate. The loan is secured through a unique social collateral, much like microfinance, by partnering with schools. The disbursements are made to the partner school directly towards student fee. This helps the parents with the much-needed cash flows to fund large one-time fee components and pay it back through a more manageable monthly repayment schedule. The biggest pull factor for the parents is that if their EMIs are paid on time they are assured of repeat loans for their child’s continued education through school and college. Based on the success of the product, it may be further expanded to fund high quality test-prep, which currently is unaffordable to our low income students due to high one-time annual payments.