# DECODING RUPEE-FOR-RUPEE IMPACT OF BLENDED FINANCE

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Sattva Knowledge Institute

DECODING Impact

[00:00:11] Rathish: There are actually very few people today who are able to really imagine what a blended finance instrument can actually unlock.

[00:00:18] Ramraj: I found myself increasingly drawn to the idea of how can we leverage financial markets and financial technologies. I used to wonder what does it take to make contributing to the less privileged, a national movement.

[00:00:32] Rathish: Sometimes when we look at social programs, we look at what has to be done.We don't really break down who does and who pays in a nuanced way.

[00:00:41] Ramraj: What blended finance really tries to do is say that, hey, we know that there are risks. Let us see whether a philanthropy or a charity or somebody else can come in and cover up some of the risks.

[00:00:51] Rathish: If there is one structure that can hold different pockets and bottles of money and say, listen, I blend it in a different way. The transaction costs become lesser. I think even in the philanthropy landscape, thanks to companies coming in, this rupee for rupee thinking, which is that, "Hey, listen, it is going to be limited capital. How do we make it work?" is growing.

[00:01:09] Ramraj: There is the investing bucket and there is the philanthropy bucket. In philanthropic bucket, you give away your money. In investing bucket, you make money. What we are talking about here is something in the middle where we are saying, Hey, you know what?

We can make some money, but we can also create a lot of social impact. Now, this is a new paradigm.

[00:01:27] Rathish: Welcome to Decoding Impact from Sattva Knowledge Institute, where we speak to a wide range of experts on population scale challenges to see what does it truly take to solve these problems at scale.

[00:01:37] Rathish: There is a lot of noise about what we need to do to achieve the sustainable development goals. And one of the chief constraints in achieving them is the capital that we need to make it happen. All the studies by NITI Aayog and other organisations highlight a vast and growing gap in the amount of financing we actually need to solve this challenge.

And it's very clear that unless we can attract a wide range of sources of capital, including commercial capital and public capital, we will not have a standing chance in achieving the sustainable development goals. One of the critical solutions for achieving that is blended finance. And there have been multiple experiments in how we can blend public philanthropic and commercial capital to solve population scale challenges.

However, there are still a lot of questions on what really is blended finance. What does it take to solve a problem using blended finance? Where is it applicable? Where is it not? And most importantly, what is required to be done for us to be able to scale the application of blended finance today? To answer all of these questions, we have someone who's been part of the impact investing and the blended finance journey in India over the last four years.

Ramraj Pai joins us today. He has been a president at CRISIL, the CEO of Impact Investors Council, and has had a chance to interact with a wide range of stakeholders on impact investing and blended finance.

[00:03:02] Rathish: Ramraj, thank you so much for joining us today. We've been talking about blended finance as part of the focus on today's episode. But before I get into blended finance, I wanted to speak to you. Tell us about your journey and what got you here to this focus on blended finance in your own career trajectory.

[00:03:19] Ramraj: So thanks, thanks Rathish. I really appreciate you giving me this time to come and share some of my thoughts on some of these topics like Blended Finance. So essentially I've been a career financial markets and credit markets person. So I worked with CRISIL, which as most people would know is India's leading rating agency.

So I used to be part of the credit markets team there. I worked on a variety of businesses at CRISIL for close to 24 years. Also had the opportunity towards the end of my stint there to work on setting up the CSR foundation and you know in fact took what you may want one may want to call a sabbatical for two years to set up the CSR foundation We did a lot of work in the Northeast around building a cadre of self-employed financial literacy workers that kind of peaked my interest in this whole social sector space and I found myself increasingly drawn to the idea of how can we leverage financial markets and financial technologies.

To really create impact at scale. So my work at CRISIL Foundation for the last four years before I left showcased to me that while there are a lot of people who have a great sense of the on-ground business realities, what are the challenges of setting up something and, making it work, there was very little awareness or knowledge around how is it that financial markets can be in some fashion, co-opted, not in every situation, but is there a middle ground where we can actually leverage financing more effectively.

And so it is with that kind of a broader sort of thought that I left CRISIL sometime in 2019 and I joined as the CEO of the India Impact Investors Council. So the IIC is really a not-for-profit industry body set up by a bunch of impact investors.

Essentially it was set up by a bunch of social impact investors whose whole idea was how can we bring more capital to social impact in the country.

And I felt that given my past background having worked on the capital market side and with investors, this could be the best way that I could immerse myself in the social sector.

[00:05:42] Ramraj: Rather than get on to the execution side of it, where people have spent careers, understanding education, understanding health, understanding different sectors. I will not be able to really bring very significant value or I'll also have to spend 20 years.

I am no brilliant person that I can learn all of that in two years. So I decided that I wanted to work in a space where my past experience will help me to add value in the manner that I can create maximum impact with my past background and experience. And that's how I joined as the CEO of the India Impact Investors Council.

So I was with them for about four years and I'm a bit of a career break now for the last few months thinking through what it is that I need to do next, but clearly the whole space of using financial engineering to maximize impact is something which is very close to my heart. So I continue to remain deeply engaged informally with a variety of market players and stakeholders. To see where is it that I can make my best contribution.

[00:06:51] Rathish: Before we go into blended finance, more a personal question you've seen impact on the outside. Then you saw impact from the CRISIL foundation work. And then as part of IIC, you look back at what you've learned and your own assessment of the impact space today. What are a couple of reflections that stay with you?

That probably you saw it differently from the outside and now you see it differently. Now that you've had the six odd years of experience working in this space.

[00:07:17] Ramraj: I think my biggest sort of reflection or observation is that for a sector which is so large and so critical for advancing social equity in the country. I think there is a far greater need for institutionalised representation and engagement with stakeholders. And that's something which I see very little of in this space.

Whether it is the not-for-profit social sector, the for-profit social sector, or otherwise. Look at any other sector you can take in this country. You can take steel, you can take chemicals, you can take any sector. In whatever way and fashion they have organised themselves in a manner, that they are presenting themselves, their problems, their challenges, more importantly, their contributions to the larger stakeholders and figuring out how to create an environment where everyone's interests are aligned and, we make progress as a society and as a country. I feel in this space, I've seen very little of that. And it has always sort of, you know, I've always thought about why is it that this sector, which has been around in this country for so long, we don't have more institutional arrangements. Talking to the government, engaging with the government and working with them and figuring out how is it that we can create much larger social sector organisations. Even if we do a, I had read an article a few years back, which benchmarked India's largest social sector organisations with the U.S.'s largest social sector organisations. And we are a fraction of that size.

And it always, I used to wonder why, obviously, you have all the purchasing power parity and, all of those issues, but what is it that, it takes for us to create larger organisations which are creating larger impact, just like we have banks and we have NBFCs, we have steel companies, why would we not have very large social sector organisations where the collective interest and motivation of society to make a difference is harnessed in a much more powerful and strategic manner.

It's happening. I think people are making huge contributions, but what does it take to make this a national movement is really, you know, if I have to leave in my own mind, one thought contributing to the less privileged should be as much a part or a national movement as much as anything else is.

Whether it's Skill India, some fantastic initiatives from the government. I think making a contribution to the less privileged, yes, we could say that, all of us pay income tax and so on and so forth. But I think there is a deep embedded desire in a lot of people. And I've seen that in my own work at CRISIL foundation when we actually created a volunteering program, we had volunteering hit rates of 50%. That means on an employee base of 5,000, we used to have 2500 - 3000 people participate in volunteering, which is self-initiated, not the regular, "let's clean the beach tomorrow" kind of thing.

These are projects that people set up themselves and run it over the weekend with funding provided by CRISIL foundation. And we saw that there is that deep desire. What you need are the right kind of pipes through which this desire can be harnessed. So I thought that's one thought which I always feel is, as a country, we should be able to do more of.

[00:10:48] Rathish: One of my favorite anecdotes, building on this, is that there is actually an online Rummy Players Association club, which is just online gaming companies that allow for rummy to have an industry association. We employ more people than the railways. We don't have an association that can represent our interests.

And I think another point that speaks to it, and I want to bring it up today in our conversation as well, Ramraj is that every other large business and industry today has infrastructure that they have built that will benefit everybody else to do better. Here in the social sector, there is very limited infrastructure.

So it's everybody working and solving the same problems vertically, rather than sort of solving for it horizontally.

[00:11:30] Ramraj: I think we have a lot of value as leaders that we are doing good social service. But I think we have to raise the bar to say that we are doing good only when we have impacted people at scale.

Because I meet a lot of entrepreneurs and I sense sometimes that they feel that they're doing great work, but I think the difference between, I think our aspiration has to be here in terms of what is it that we believe is doing good; which is not to in any way belittle someone who's doing work in their own local society or local community, but no, but what are the new tools? What are the new things that we need to move it up here rather than operate it here.

[00:12:14] Rathish: I think it's a good point and also why, partly why blended finance is important because one of the reasons I feel we need blended finance in some senses of the capital constraint that we have in solving problems has to be solved. But before we get into that, first blended finance for dummies, how would you explain it to someone so that it is very clear what that is?

[00:12:33] Ramraj: If you really look at society or we look at our country, there's a base of people who are well off, maybe taxpaying, they have incomes and so on and so forth. And there is another category of people at the other end who are really in dire straits. They need support even in terms of food and other basic things, right? These are the two ends of the market, if I may use that word, but the reality is there is a large base of people in the middle.

Neither are they well off enough that they can completely do things on their own. Neither are they, really living completely hand to mouth. Now, because these people are somewhere in the middle, many times it It becomes difficult for commercial investors to understand how to engage with this market. Can we give them loans? Can we, give them some kind of credit support? Can we do anything for them, which will enable this community to also move upward. So there are some risks because obviously these people are neither here nor there. Now because there are risks, many times the banks or financial institutions or other people do not want to engage or do not want to participate in supporting some of these because obviously they have their own fiduciary duties. What blended finance really tries to do is say that, hey, we know that there are risks. Let us see whether a philanthropy or a charity or somebody else can come in and cover up some of the risks. So let's say, there is 100 rupees of funding that is going to be made available to these people.

Maybe the risk could be 15%, 20%, whatever it is, 80% will be good, 20% could be bad, we don't know today, could be bad. That's a broad range. So what could end up happening is, that a charity or a philanthropy says, Hey, you know what I will put up this 20 rupees. So we give out 100 rupees, 20 rupees comes from the charity or the philanthropy 80 rupees could come from a bank or a financial institution. And that 100 rupees is lent out. When the money comes back, when people repay, they possibly all of them won't repay. Whatever money comes, you first pay out the 80 rupees to the larger commercial investor. And only after he's fully paid out the, whatever is the residual.

So let's say you collect 92 rupees, 80 will go first. The first 80 goes to the larger commercial investor and the 12 rupees then goes to the, goes back to the philanthropy or the charity or whoever else it is. Now, what have you achieved in this? What has the philanthropy or the charity achieved? He has now given 20 rupees, but he has created loans worth 100 rupees, right?

So if you really look at it, the impact is 100, but your rupee investment is 20. impact is 4 rupees or 5 rupees depending on how you define it for every rupee or dollar that you have invested. This is as far as the charity goes. This is the first thing. Second is, this bunch of people who nobody knew what the risk was, now that risk has been manifested.

They have become part of the formal financial system. Banks and financial institutions understand the space better. Therefore, next time they'll say, oh, now we understand this risk a little bit more. We are more willing to lend to these guys. So now you have created a completely new segment. What have you done?

You have blended some form of credit support from philanthropies and grant providers with commercial financing. And in this process, instead of giving away 20 rupees, which would have gone as grants to these people, you have now brought them into the financial system. You have enabled them to raise money of almost hundred rupees.

And therefore, you have created an ecosystem which is virtuous. And this is very important, Rathish, because let's understand, we are a capital starved country. You don't have enough money, particularly for the people who are at the margins of potential income viability. So what this does is it really enables you to use your capital more efficiently.

And it's always my kind of exhortation to charities and philanthropies is not to look at absolute impact, not to look at I impacted 1 million people, but to ask the question that for every rupee that I put in, how much absolute impact, how much impact did I create? So can we change the conversation from absolute impact to impact per rupee? And that is essentially what blended finance tries to do is really blend some capital, which is taking very high risk with some other capital, which is taking some risk. But at this point is little apprehensive. So how do you mix these two together? How do you bring these two together is really what blended finance is all about.

You can put in a lot of bells and whistles to this, but in essence, this is what blended finance is trying to achieve. I've given you an example in financial inclusion. I can think about the same thing for health. We can say primary health centers, we don't know whether they are viable or not. There could be all kinds of problems, demand issues, supply issue.

Every sector will have some risk. Okay. Can somebody in the initial days handhold the sector, handhold an initiative, take that little bit of risk? And in the process attract financial investors who also want to do good, but possibly today their credit filters or their investment filters don't allow them an entry into this space.

That is really what blended finance is trying to achieve. We've had a long history of blended finance in this country. These are, if you look at priority sector lending by Indian banks, it is in some fashion, if you really think about it is one of the largest scaled up versions of blended finance.

Every bank has to lend a certain amount to farmers. Every bank has to lend certain amount to this thing. These are some ways in which blended finance could typically open. So that's a kind of a sort of, if I may say a blended finance for dummies. This is something that anybody can use, but let's keep it in mind, Rathish, that in every situation, blended finance may not work.

[00:18:47] Rathish: Absolutely. I want to break you know what you said into three parts that I picked up Ramraj, I want to check with you, whether my understanding is correct. In the example you gave, I think three preconditions were necessary, right? One is the commercial investor who put in the money, the commercial entity that put in the money, is gonna get the money back at a predictable period of time. It's not like a perpetual, you know, not available at 25 years later, there is a period of time they're willing to let go of capital so that they get it back. So that predictability within a certain time period is important. Second is the fact that there is a certain probability of risk, which should not be a perpetual risk in some form, which is that once you discover the risk, you can measure it, build your model, et cetera. And that is, I think, important because in some sense of philanthropy capital's role is catalytic, not perpetual.

And I think that's an important aspect in some sense that you highlighted which I think is very critical. And in some sense, the third part of it is that the role that the philanthropy plays should be measured in terms of the total capital unlocked. Rather than their contribution, which I think is useful. Are these some necessary parameters to keep in mind?

[00:19:56] Ramraj: I also think there is a fourth point, which is very, it's a very subtle nuance, but I think it's very important for a lot of people to understand that access to finance in itself is a huge social good. Even if a small trader can access finance at 21%, Okay. Earlier, he was not able to access it. It is a better social good than him doing a business of say 5, now he can do a business of 50, even if he's paying a relatively higher price, it is still worth. Most people don't see access to finance or access to capital in itself as a social good. Okay. Because please understand that when you start a new segment or a new asset class where you're doing work, obviously, there's the risks that manifest over a period of time.

Really what happens is a lot of these smaller people, smaller businesses, smaller enterprises, go and raise money at 40%, 50%, 60%, 100%, 200%. You have the vegetable vendors who will take a hundred rupees at the beginning of the day, and at the end of the day, they give back a hundred, 510 rupees.

If you look at it, 10 rupees a day, I don't know, some 3500% or some such number. So access to capital for a sector is very critical. So when philanthropies and other people look at it, it's very important to recognize that creating access to capital for a certain segment is important. Immediately an aspiration that they should get money at 8% may not be, it may not be in the right space or, you know, they should get money at 5% because I'm providing catalytic capital.

There are costs of acquiring the client. There are costs of servicing the client. Okay. Many times the client you need to go to his store. Maybe to his thela or to his place and collect the money. There are many other costs which could be involved. So I think access to capital is a huge social good.

In fact, if you ask me one of the most under-recognized social goods that we have in this country is access to capital. A small truck operator, a small person driving a Tata Ace of one ton, if you are giving him access to capital, earlier he was borrowing it from the local money lender, you have created huge social good. And we are somewhere in our systems, I don't see enough recognition or enough value being accorded. To the fact that a certain kind of transaction or a certain kind of business created that access and brought them into the formal financial system. So I think that's the only other nuance that I'd like to add.

[00:22:20] Rathish: And I think I want to build on what you just said, which is access to capital in two ways. One is where the access to capital is the intervention, which is that, Hey, listen, I enable access. Two is, I think building on the healthcare point that you were making in sometimes when we look at social programs, we look at what has to be done.

We don't really break down who does and who pays in a nuanced way like, you know, you want to do provide healthcare training and I always assume that philanthropy is the only way to fund it. You step back and say, who else is willing to pay for this?

There is an opportunity to think about an access to finance for that intervention that we default philanthropy almost always.

And there is an opportunity to bring in a commercial interest to that play as well with a certain level of measurable risk.

[00:23:04] Ramraj: And I must tell you that from the commercial investor side today, given the visible pressures on demonstrating sustainability that a lot of banks, financial institutions and other people have; they are actively looking out for such opportunities. In fact, several of the large banks today have their own sustainability team.

They are not very large yet, but I think there is a market. It's a question about figuring out how to engage and make those transactions work for both the bank as well as for the philanthropy and for the beneficiaries. Blending, you can think, Rathish, at any level, yeah, you can blend on a transaction level, you can blend at an enterprise level also.

Let's say you have a you have a vehicle, Let's say you think of a green climate bank, okay, a green bank, then the green bank's job is to figure out what is the best value for its money in the marketplace. What all can it do? There is no use of us going and putting more money against another solar power.

There is already State Bank of India and ICICI supporting solar power. What this green bank should be doing is getting into areas where no one wants to put money because it is too risky and that is where you need blending. Where is the battery-swapping technology coming? Where are those kind of infrastructure for battery swapping getting built?

Where are those organisations getting funding? Why is MOEFCC not thinking about setting up a green climate fund, which will support all of these gaps in the infrastructure that is getting built. That's really where blending can be catalyzed at a very different. Then everyone in this fund is thinking about this problem.

How do I solve for this problem using whatever form of finance that I need is available to me. So I'm not stuck here. I will give only equity. I will give only debt. Why? Whichever problem is there, you solve it with that form of financing.

[00:24:57] Rathish: And as you're talking, I'm just realising that the transaction cost, when the person holding the different types of capital are different people becomes too high because then you have to align them, et cetera. But here, if there is one structure that can hold different pockets and bottles of money and say, listen, I blend it in a different way.

The transaction costs become lesser because one of my biggest challenges that I see in the space today is that the transaction cost is too high.

I want to go back to something you mentioned earlier, Ramraj, which is not all of it is blended finance. And there are places where blended finance may not work and you like, give one example. Do you want to talk a little bit about that? Like where is blended finance not relevant?

[00:25:33] Ramraj Let's say you are going into you very poor districts. Maybe there is very little income. There are very little employment opportunities. There is very little potential for the customer to pay anything. Let's look at adaptation in the climate side. A lot of the adaptation work that will come, some of it can be private sector viability could be there, but a large part of adaptation could be something which you are doing for the larger, you know, you're, you're trying to make your society a lot more resilient.

You're trying to make them adapt to the change that is coming. Some of these spaces may not necessarily be open to just looking at it from the lens of economic viability. There may not be an economic viability in setting up schools or setting up a small primary health center in, in places where there is no economic capacity to pay whatsoever.

Those situations, blended finance may not work. And I think the whole idea is not that, this shouldn't be a nail in a search of a hammer. But we have to be strategic in terms of figuring out where are those places where there is a capacity to pay and potentially if they see value of willingness to pay.

Okay. Because let's face it. A lot of people who are working, maybe lower middle class also have their own pride. They have their own professional this thing, they are earning themselves. We have to give them the opportunity. To avail of a product or a service in a manner that maintains their dignity and it's just that we have to design a product or service. It may not be possible for everybody.

Okay, for example, I remember still during the peak of the pandemic, there were a lot of schemes which came up to support Zomato and Swiggy and other, these sort of gig economy workers, as you may call it. Some of those schemes are very much viable, because these are all people who are hardworking, regular folks, they just doing their regular delivery, but no one had maybe lent to these guys.

So no one knew. At the peak of the pandemic, will these guys pay back? How will they because anyway, there's not too much delivery happening. All of those apprehensions were there. But these are segments where there is economic value running through the work that they are doing. So there is a potential for them to pay, but possibly it's a segment that nobody has you know, worked with or supported them in any fashion.

So in the peak of the pandemic, not really something that the risk department of a bank or an organisation would be very keen to look at. That is where catalytic capital, that is where blended finance can come and say, okay, hey, I'll provide you a 30%

cover or a 30% support or a 20% support or whatever it is, but after two, three cycles, people will realise, hey, this is how this particular bunch of people operate.

These are the red flags. So let's say somebody's been a driver for two years, three years, his ratings are good. All of this is good. Maybe he's a great credit risk, but the market didn't know about it. But now he's become a decent guy who could borrow money at a reasonable rate, may not be at 6 percent or 8%, but still he has now become part of the formal financial system. So that's really the way we need to about think about this whole thing.

[00:28:42] Rathish: I'm thinking there are three factors we should keep in mind. One is who is the person we are looking to support. Now, there are people who are extremely poor who may not have the economic ability to pay. And if that's whom you're targeting maybe there is no opportunity for us to lend in some sense, right?

Because that will go against the grain of what we want to do. So who we work with is one part. Second part of it is the, what we work on. For example, I'm thinking public goods somebody wants to conserve a lake. If there's nobody who's going to come in and say, listen, I'm going to pay for the lake, but it has to be done because it's a public good.

So maybe there are public goods that if you're building in some sense, there is probably not an economic opportunity there for you to be able to lend. And the third one, which is really where you're offering something to a person of where the value is not very obvious to the person by start, like if there is no willingness to pay for it today, hopefully when they see the value of it over a period of time, they may be able to play, but in the initial phase, maybe there is an opportunity to only provide it as a grant to sort of switch to a point where they might then say, hey, I see the value of it.

I'm willing to pay, but I'm willing to pay a certain cost. And then you sort of grade them to a point where they at some point are able to pay market price or the market is able to play at the right price but when the value is not acknowledged, maybe again, blended finance may not be the right approach.

Will these three things be a right thing to say?

[00:30:00] Ramraj: Blended finance is a very, very, very, very large word. All I'm saying is there is a social good that you are doing. I am incentivising you in some fashion and encouraging you to try and do more of that social good and trying to create a market for this whole. So you can do it in health, you can do it, you can do it in a whole host of sectors.

Financial inclusion typically has been a sector where it has been a lot more successful, but now people are trying this out in a variety of other sectors. Like I said, health. We are trying to do this in a lot of the, supporting innovation through technical assistance grants and so on and so forth.

Sometime the theory of change of a particular thing may not be very, very clear. How is this going to manifest? You could actually there provide a TA grant and enable people to run through that entire mechanism, see how it's going to work. No one knows how it's going to work. Maybe it'll go towards London or it's gonna go through Tokyo, or maybe we are going to end up in Ethiopia or we are going to go somewhere else.

We don't know that. All of that could get supported through some of these kind of things. So in fact, as I'm saying, Rathish, that you will be, I'm sure seeing examples from your past experience that people have done this. It's just that we didn't call it blended finance. Okay. So blended finance is a larger word where you're trying to in some way blend philanthropy with commercial finance.

[00:31:14] Rathish: I want to summarise that so one roughly as you were talking, I was saying there's India A, B, C.

India A is people with whom there is no need for philanthropy to even play a role. People like us who can pay for what we want. India C are people who are today living at the same level of income, a sub-Saharan Africa. There is a need for a lot of public capital to come in to deliver value for them.

But there is an India B, which today needs access to a wide range of resources that can help them create value for themselves and for their communities and families. And the scale is large enough for philanthropy to not be able to solve that problem. And we need commercial capital. And these types of needs typically have the following characteristics.

One, it will actually result in an economic transaction, which will give back the money in a certain acceptable timeframe. Two, there is an inherent risk and unknown probability there, which will dissuade a commercial entity to jump on head on. Three is that if provided a catalytic role, philanthropy can support it for a short term so that there doesn't have to be a perpetual support to make this happen.

In all of these cases, blended finance will be an opportunity for us to solve the problem. And as you rightly highlighted access to finance as a public as an intervention that creates value is important to consider. We also spoke a little bit about what will not be in the ambit of blended finance.

One is what we talked about India C. People who may not be able to have the ability to pay for them to try and do blended finance is not going to be worked. Two, it is going to be areas where there is a public good and the public good is something that is delivering value for a lot of people and hence needs a certain type of capital.

And three is where the the perceived value of it in some sense is shot. And hence it's not seen by the person who is receiving the value. So may not be willing to pay. And hence Blended Finance may not be helpful. I think a lot of examples that you gave today is actually valuable, but for me, there's a wealth of information around how we can break it down.

And for me, ties to the second part of what I want to talk about, which is really the point you made, which is there is money available, there is money required, and there is an interim problem of imagination. Of being able to find the right ways to unlock that money that we have to solve for.

[00:33:32] Ramraj: I think that's a good summary. I just want to add two quick points on this. One is when you looked at the India ABC and that classification, We just have to ensure that our small and medium enterprises is a very important element. So that has to be added. That is one element because helping them have multiplier effects in a variety of ways, one. Second, supporting innovation. So for example, On the climate side there is one challenge or there is one issue, which is around the climate transition from all your fossil fuels to that, which is the larger institutional mechanism that the government is working on. But there are a lot of problems where there is a need for innovation finance. Now, who is going to make that available?

Now as the philanthropy, I can use the money in the manner that I imagine is the best value. Okay. Again that's a space. So for example, now you're trying to create an entire ecosystem, which is a lot more sustainable than the fossil fuel based ecosystem, right?

The infrastructure for it doesn't exist. Let's take the waste management and circularity issue. What infrastructure do you have? You have a huge infrastructure for your fossil fuel based businesses. Everything is available. Think of petrol pump, everything is available for you to access it easily and consume it, right?

But when you think of a circularity or a waste management ecosystem, the infrastructure just doesn't exist. Collecting the waste or anything else, it just doesn't exist. Now, these are problems and these are situations from a climate perspective, which also will lend themselves outside of this framework that you provided.

So one would be the innovation part. And the second would be the challenges on climate where creating that infrastructure could have significant combinations of public private partnership.

[00:35:33] Rathish: Absolutely.

[00:35:34] Ramraj: Both of them will be add ons to the framework that you created in terms of supporting a variety of these organisations and enterprises. We don't have that infrastructure for some of the other challenges, whether it is waste management, whether it is circularity, whether it is water regeneration, none of the pipes for those have been built and those are again, spaces, where blended finance, where philanthropy, they can reimagine their role, and while they need to continue to do the work on way, you know, education and health and all of the other things, the infrastructure for this is again, a very, very, very important space that has to be seen in the ambit of this whole blended finance.

[00:36:12] Rathish: So I want to come back to the imagination point Ramraj, and I'm going to try my best out of my memory to capture all of the various examples that you gave. one is the lending example, which is here is a target person.

We want to give a financial loan to a credit product to risk of returns is unclear. So finance can blend it and make it easier. That's one. I love the example of emissions that you gave, which is where the financial transaction does not benefit or acknowledge the good behavior. As you reduce the money, which is as I put the outcome focus into it, I can actually reduce your interest rates.

So I can finance can come into blend and saying, hey, if you're doing good behavior, I can find a way to reduce your interest rates or do things that which goes beyond the actual financial transaction to account for the social and ecological benefits that can come in as well. That's a second example that I can see.

And we talked about a similar example where schools can be provided lower, you know, lower interest rate loans if they show better learning outcomes, for example. The third is the technical grant example. There is a need for patient capital on innovation that will need to be provided for an innovation to become market ready.

And that could be an example where the technical assistance example that you gave, maybe a loan at a very low interest or a grant that can actually enable them to run when they are not market ready. That could be the third example that we can take in some form. The fourth one, which you mentioned, which is interesting for me, I didn't think of it before, is infrastructure building work.

Which is, what is the infrastructure that we need to build for a wide range of things to actually happen? You gave the example of climate and, recently I've been working in the space of water vulnerability. Where if you're able to create the right infrastructure for water vulnerability, a ton of other people can actually work on it.

So gives us a very interesting way to look at where finance can be blended. So there are lending product related ones. There are outcome based sort of discounts and saying as a word that can be relevant. There are models of making innovation accessible through technical grants. There is infrastructure building work.

And finally for me was the idea of working capital, which is I am providing you working capital for you to be able to validate and work through a certain lean phase. Hopefully because after a certain period of time, the market model will stabilise, right? Broad five categories. One, your feedback on whether these are five valid categories, and is there a sixth or seventh one that is missing?

[00:38:42] Ramraj: Yeah. I think that's a broadly valid. I just like to focus just one more piece, which is on the innovation side. We need to keep doing better work on building on what exists, but if we have to genuinely over a period of time, believe that we need to create our own sort of IPs and our own sense of intellectual solutions, which are unique to us.

We need to be able to support various kinds of innovation, whether it is biotechnology, whether it is deep tech, whether it is a lot of new areas that are coming on, who is going to support it. Government will be there, but can philanthropies, can other people also come into it? There may not be a role immediately for commercial investors.

Maybe VCs can come in later, but how can we create or how can we make more funding available for innovation? In some fashion for the sake of innovation in itself, because that is an important harbinger for what we want to be as a society.

[00:39:41] Rathish: I want to dig deeper a little bit there, Ramraj. Before you brought up innovation, my own understanding has been that even globally, a lot of the work that innovation covers is funded by federal capital. Government spends money on innovation because there is really to go back to the principles that we laid out.

The economic value is not going to be seen for a very long time, at least as a part of the life cycle where innovation should be ideally be just purely grant funded. Where exactly do you see the value for blended finance and innovation?

[00:40:11] Ramraj: My worry would be that if you don't support some of the kind of ideas that people have. If you had a, if 100 people could innovate, okay, maybe only 10, 20 of them will have the mental resilience to go ahead without support. And then out of those 10, 20 of them, maybe five of them will become VC worthy and move ahead from there. If instead of supporting 20 people, we had the wherewithal of supporting a hundred people. Okay, that whole filter and that base would become so much larger that you would have a lot many more unique, specific, innovative ideas or innovative solutions coming together. So my whole idea is how do I increase that sort of, if I may say that pipe for new and innovative ideas.

Right now it is coming despite the lack of funding, not because of the availability of funding.

[00:41:05] Rathish: Yeah, I agree with the funding question. I'm only wondering whether it is actually blended finance.

[00:41:10] Ramraj: You can think of a special purpose vehicle, which will do both innovation, grant support, and then over a period of time, provide venture capital at some level. So it can be a combination within the same vehicle, the vehicle can innovate and also have a VC fund sitting on top of it.

[00:41:26] Rathish: Correct.

[00:41:27] Ramraj: So that's the kind of, that's the nature of something that I'm thinking about. So let's think of a, I'm not again, a specialist say, but let's think of a specialized biotechnology fund, which will do everything and anything. It will do grant support. It will do venture capital funding. It will provide debt financing.

It can provide all kinds of solutions. So if you're a biotechnology guy, this is where you need to come...is the way I'm looking at it. You can also have third party biotechnology fund and so on and so forth or other people coming through. The amount of funding available to even accelerators incubator from a CSR side, it's one of, it's it's right at the bottom, somewhere at the bottom in that bottom three, again, somewhere my thoughts come from that.

That out of maybe, I don't know, crores we spend on CSR, the funding that is available to this accelerators incubators is quite low. You can check that data. I am reasonably sure of my numbers.

[00:42:20] Rathish: And I want to step back now largely to a much broader question here, Ramraj, which is really like you said earlier, there is money and there is willingness from institutions to fund this. The need is of course huge. What is today's stifling the flow from supply to demand in some form. And my own assessment and please correct me if I'm wrong is what I call the lack of imagination.

There are actually very few people today who are able to really imagine where a blended finance instrument can actually unlock because the people who understand the problem, understand the capital and understand that longterm play. You are actually a very few people. Would that be a fair thing to say?

[00:42:59] Ramraj: Yeah. So there are, there is a, it's a complex hydra headed kind of problem. First of all, we for long years in India have built the entire institutional infrastructure to support regular grant making and execution. And we have done it with a decent degree of support. So whether it is an education, health, the regular projects give grants.

This is something if I'm meeting the CEO in an elevator and he asks you what is happening, what are you doing? I can very simply in half a minute, between the 0th floor and maybe 7th floor or 8th floor, I will be able to in one minute explain exactly what we are doing.

CEO is there. I am also happy. Everyone is happy. Moment you get into blended finance, it's a complex you know, it's, it doesn't lend itself very conveniently for an elevator pitch. Okay. To me, it may sound like a very basic or a very crude thing, but effectively your ability to explain it in a very simple way, it doesn't, it's not very easy and very simple and easy to explain.

Okay. It's far easier for us to say we did x things to 1 million people in x, you know, in, in Bihar or Rajasthan or Tamil Nadu or whatever else it is. It's a simple model. So blended finance in itself, If I may say, has in itself inherently a certain degree of complexity, because we are trying to change the paradigm in which we are thinking about impact.

We are saying that was for every rupee I put, I created so much of impact rather than saying I helped 1 million people. I had 1 million people. Did you use 100 crores or 500 crores or 10, 000 crores? Where is the relationship between what money you put in and what impact you created? It doesn't exist. And so changing this paradigm really is where the problem is.

If investors start thinking, if grant providers start thinking like this, and if the not-for-profits and the executing organisations start thinking like this problem can move ahead but really all our institutional mechanisms right from the education that we make available in the social sector, let's go and look at the syllabus of education.

How much of exposure is there on the financing side? There is an inherent idea, grant will be there, then we will execute and create this kind of solution. But thinking about how that procedure happens, how can we use that? So we do not have the pipes, we do not have that infrastructure through which some of this is made available.

Centrally the issue is at some level, there has to be greater imagination as you have rightly said, and the board has to think about, how is it that we are creating something very radically different. The funding which is available, whether it is philanthropy or CSR, we have to think about it as innovation capital for development. It is not capital for development. The paradigm today that exists is it is capital for development. No, this is money given by the shareholders or by the trustees of the philanthropy or the charity.

This money is given. If you can think about it as innovating for development, then we will solve a lot of these problems because then my idea is not that, okay, what is this money? How can I help people know? How can I create new pathways, new methods, new ways of maximizing the impact because that is the fiduciary duty of the head of CSR.

That is the fiduciary duty of the head of the philanthropy to think, how can I maximize this? How can I create something that 10 years later, somebody will say, yes, this organisation created this new thing. I think that is a paradigm which needs a strategic shift from the chairman or from the board to say, was use this money for innovation.

Because the amount of capital that a philanthropy or a CSR will have is very small. So you will not be able to create absolute change on impact, but if you use it for innovation and we aggregate it across, you can do a lot more, [00:46:48] Rathish: Absolutely. Absolutely. And I think that many times we forget how the philanthropy capital is such a small percentage of the total amount of money we need to solve social problems. And hence being catalytic is going to be very mandatory.

But you talked about pipes and infrastructure, Ramraj.

And maybe I want to break it down because, you know, usually we follow this system thinking approach where we say mindset is step one. Rules and structures that we have to create is step two. Incentives we are creating is step three. And then there is capacity, capability that we have to establish.

I think the first thing that you talked about is mindset. Do you have a mindset thinking of philanthropy as catalytic and innovation for development rather than development capital, which is very, very important. If I had to break it down, break down the infrastructure point and the piping the plumbing that you talked about, what are some of the critical aspects that you think we have to build?

[00:47:38] Ramraj: so the infrastructure is needed at every level. You asked me one of a very tough question, I must say, because fundamentally the change of mindset itself, it takes a bit, because I knew at CRISIL that we had a very, very enlightened you know, sort of CSR subcommittee of the board. People who've been deeply engaged in the social sector for a very long time and also deeply engaged with the financial market.

So it's a very rare combination. But even there I think there are a variety of pulls and pressures, there is obviously the reporting that you have to do. You have to ensure that the monies are spent, you are not in violation and all of those kinds of things. So I think getting the pipes and the infrastructure in place will happen only if there is that change in mindset because after that, then you have to think of a variety of things you have to think about, from the education that is being made available because today the people who are passing out of our leading social, sector education organisations are the ones who are going to become the heads of these organisations in 20 years time.

So if that imagination is not catalyzed at their college level, they are going to be carrying the same idea. In no way am I trying to say that the regular stuff that we do is not important. It is valuable and important. In a country like ours, where there's a shortage of capital, we have to think about squeezing development capital for every rupee for what it is worth.

So I think we need a paradigm shift there, one. Second is we also need a far greater celebration of these innovations in the social sector. We don't see enough of that. In general, in popular media, you know, we don't see celebration of social enterprises. I think there is a cultural shift that needs to happen.

Today, you have an entire page in every newspaper which says XYZ got ABC funding, so and so got DYF funding. How is it that we can create more oomph, if I may use that word, around social sector support, social sector finance, difference that people are creating, new ideas that people are coming up with?

I think we see some of that happening with, stuff that we see on Shark Tank and, the local, the version and so on and so forth, but I think we need to create a kind of shift in the way society as a whole thinks about creating social impact, which is not that we went and helped two kids on the road.

Important, valuable. Good way to begin. But if you can create something a little more innovative, you will be able to create. Maybe you may be impact 100, 000 or 1 million people. We've normalised being an entrepreneur in India, 30, 40 years back, being an entrepreneur is you didn't get any job.

So you became an entrepreneur today. You have normalised and made that aspirational. How do I make social impact? How do I make innovation in social impact? How do I celebrate that and make that a lot more aspirational that it is today? How do I create a hundred more Jaipur Rugs, a Fab India? How do I celebrate?

Some of those kind of organisations at a level, which is a lot more than what it is today.

[00:50:44] Rathish: And I fully agree. I think even in the systems thinking thing, we say that if mindset doesn't shift, nothing else is going to shift, but I also want to make it tangible, Ramraj, because there is today, in my opinion a few tailwinds that are important, right? There are actually professionals from industry who are coming in who understand a certain level of finance to the social sector.

So there is a transition that is happening. I think even in the philanthropy landscape, thanks to companies coming in, This rupee for rupee thinking, which is that, "Hey, listen, it is going to be limited capital. How do we make it work?" is growing. Third, there is actually now that constraint of the fact that this is only catalytic becoming more understandable for people.

They're like, "Okay, this is the amount of money I have. My ambition is this much." So there are tailwinds. So even if I have to tell the early adopters that, Hey, listen, this is where you can start and demonstrate value, that zero to one journey. I'm wondering how can we get that started and how can, let's say today CEOs listening to this podcast or funders listening to this podcast, if they say, listen, I want to do this in my organization, where do they begin?

[00:51:42] Ramraj: one is that increasingly we are seeing a variety of specialized blended finance consulting organisations or organisations trying to become blended finance investment banks. I think starting off working with some of them, for example, a bunch of social impact investors have set up the blended finance company.

There are other organisations like Intellicap and a bunch of other people, Sattva themselves, and a whole host of other organisations who can consult and who can help these people on that particular journey. So that is one part of what I would think. I think re ideating the philanthropy framework is something that I would think that the founders of these philanthropies should be working with a structured approach with institutions and organisations that specialise in blended finance is one part of what they should do. I think the other thing which is needed is somewhere for the government to become a lot more active because there are a variety of frictions and challenges and potential, I may say gray areas

in terms of what is allowed and not allowed as per regulation, what is it that can be done? Because what we are talking about here is the confluence of for profit and not-for-profit. And in general the paradigm in India as from a legal and regulatory perspective has been, we have two buckets.

There is the investing bucket and there is the philanthropy bucket. In philanthropic bucket, you give away your money. In investing bucket, you make money. These are the two buckets in which traditional regulation is operated. What we are talking about here is something in the middle where we are saying, Hey, you know what?

We can make some money, but we can also create a lot of social impact. Now, this is a new paradigm. So most rules and regulation, whether it is the Charities Act, whether it is the Social Venture Fund Act or some of the other regulations that exist don't necessarily talk to this kind of a new paradigm, not because of a design, it's a it's basically something that hasn't existed.

And that is something that we will, I think somewhere need to work on creating structures, work with the government in figuring out how is it that we can engage them in some of these endeavors. The government themselves coming in, say as an anchor investor in some of these will give a huge boost because the moment it happens like that, from that fashion, that some arm of the government is participating in this, it brings a certain degree of legitimacy.

And, there's a lot more institutional and regulatory support that comes in once something like that happens. So I would say the two sides of the equation are, as I described, that it will be good for philanthropies and CSRs to reimagine their own role in this space. And second is somewhere, if we can exhort the government whether it is through Niti Aayog or some of the other organisations to create a somewhat more facilitative environment for blended finance, I think a lot, many more people will be interested because I think there is a genuine intention to do this, but time and again, we will, come across issues from a tax side, maybe from a GST side, maybe from a many, some of the other challenges which come up in terms of what charities can do and cannot do.

That people just stay back and say, okay let's not get into anything which can put a black mark on, our regulatory compliances. I think it's something that we can work with the government and explain to them, particularly now, because we have these initiatives on the climate side, which are coming up.

The need for climate capital is so huge. So I think there's a huge value for the government to think about something centrally where they initiate this kind of a blended finance platform loosely put which can actually harness the intentions as well as the capital from a wide variety of players, both from India as well as internationally.

[00:55:44] Rathish: I want to summarise some of the points you made, Ramraj. One, as you rightly highlighted, is the mindset, which is what is the definition of success for me as a philanthropist should shift from my capital created impact to my capital created impact per rupee.

And I'm seeing my capital as catalyst for impact or innovation for impact rather than capital for direct development itself. Second part of it is like you said, the supply of talent that is coming in, be it academic institutions that are working on impact. How do we embed this thinking right from there to say, if you're in a factory today, if you are in a college degree, if you are in academic programs, can you think about this aspect of work, which is impact per rupee rather than impact as part of the way you're thinking.

Third is how do we create a healthy intermediary ecosystem? And some of them are already emerging. The blended finance company being one. Sattva, the Convergence Foundation. There are a couple of them. So how do we look at all of these players becoming more robust and how do more organisations engage with us?

That's the third part. I think the fourth part that you talked about is also to make sure that these systems, the government systems, not only talk about the for-profit models and the nonprofit models, but create facilitative structures for the blended finance models as well. Because a lot of times the fear of being on the wrong side is actually higher than the actual risk of being on the wrong side.

And for something that companies do as part of 2% of their net profits, they don't want to take the hassle of saying, is there a risk that I will be called out by an auditor for doing this, et cetera. So even just creating that facilitative environment, guidelines, notes and support, et cetera, will be very helpful.

I think putting all of these parts of the plumbing and infrastructure that we talked about, I think is critical.

Anything that we might have missed.

[00:57:25] Ramraj: Yeah. So the challenge Rathish is really that every organisation is living their day to day life. you have your day to day work and your business and everything. You need an organisation. You need an umbrella body for sustainable finance or social finance in this country, which will represent the interests of the community as well as a larger variety of players, which is whose job it is to create these engagements, to work with the NITI Aayog, to work with the government, to figure out how are they thinking about it and figure out how is it that we can, in a more structured way, not on an episodic basis.

A lot of people whose hearts are in the right place are doing this work, but it is episodic. When they go do something and then some other business pressure picks up and then they're off. How do I make this a structural intervention where I'm partnering with the government? And I'm partnering with the NITI Aayog, where I'm partnering with the line ministries, figuring out what is it that they want to do, figuring out where is it that blended finance can help, figuring out, what structures will be something that could be viable.

You're setting up the sustainable finance working group of the ministry of finance. How is it that we can partner with them? This has to be part of a larger goal of creating a sustainable finance ecosystem a development finance ecosystem. And I think There needs to be a kind of a broader intervention, which works on this, on a regular basis, not one off. And this has to traverse the continuum of not-for-profit social impact, that whole continuum. It's a complex mix and but we need to engage with this mix.

[00:59:04] Rathish: I cannot agree more with you on the bigger tent approach, Ramraj. I think unless we bring that unified view, I think it will always be a niche problem to solve by a niche set of people.

And I don't think it will go, it's going to get that pull because we have to merge some of these words. But I think one of the critical challenges there is regulations. People don't even know what they don't know. So if you can give us a quick view of what are some of the regulatory hurdles there, that will be useful to understand.

[00:59:28] Ramraj: you want an organisation which is able to receive various forms of financing, okay? What can be the forms of financing?

It can be grant money, it can be debt or loans, and it can be equity. So that institution should be able to access equity, debt and grants, and it should be able to dispense equity, debt or grants, depending on the mandate. So let's take an example of what we used about this whole space of say biotechnology. There could be certain spaces where only grants can, will be given because those are very new areas.

In certain other areas, some of those companies have advanced, they have reached a level where possibly they can take equity in a venture capital. So this entity can therefore give potentially equity for these kinds of companies. So that's on the asset side. In terms of its financing, there may be a bunch of philanthropists who say, yes, this is a specialised philanthropist, a biotechnology accelerator. We think it's very important or a waste management circularity accelerator. We want to give grants to this particular. Someone else may say, Hey, I have this money. This is the money that I use to support growth level enterprises in biotechnology, I will make equity available.

So there could be a bunch of investors who have a variety of interests, and there can be a bunch of investment options with a variety of opportunities. What this vehicle needs to do is to be able to mix and match these for maximum. The problem that we have is that this is a very, if I may say a radically a different idea because in a traditional vehicle, you take grant, you give grant.

You take equity in a venture capital fund, you give equity in a venture capital. That's the typical model. But what we are trying to say is we want to mix and match. We want to blend. There can be different models, different. Let's say I create a healthcare blended finance fund. In some situations, I may want to give grant.

In some situations, I may want to give debt because these organisations can scale. It's a steady business. I can give debt. In some situations, I may want to give equity. And on the investor side, there can be a bunch of people who want to do different things. So how do I combine this right now, the regulation may not allow, say this vehicle, can it take money from an international foundation?

It may not have today, is this FCRA approved? Does it need an FCRA one? Can it take equity in this fashion and not give equity, but give something else? So effectively the regulation, the regulatory challenge really Rathish is in the fact that we look at, if I lend to an enterprise and I get a return, any kind of a return, it is seen as not being of social impact. You are a social enterprise, you are helping low income kids and maybe, running a school and if you are generating some return somewhere, there is a feeling that there is a, this is not a socially, I mean, it is socially impactful, but making money from this is somewhere seen as being commercial. And I think the paradigm that needs to be shifted from a regulatory perspective is as follows, and which is what you will talk about briefly on the social stock exchange, which is trying to give a very rigorous definition of a social enterprise. A definition in terms of what areas it will operate in, what are the conditionalities under which it will be defined, the audit standards, the regulatory, self regulatory organisation for social enterprises.

And the SEBI has created an entire ecosystem for building up the social enterprises. Now, what we need to do is to use this social enterprise definition as a pivot and provide a lot of support to funding the social enterprises. They could be funded through grants, they could be funded through equity, they could be funded through debt.

Now, if you are able to give some concessions or some benefits in terms of, if I give money to a social enterprise and they give it back to me with say 8% interest, and if I can see that as a social good and not be seen as a commercial transaction, that is something that can help. Right now, those

pipes or those structures are not yet very defined and that is what maybe a social stock exchange can play a huge role because the definition of a social enterprise, the entire bells and whistles around their audit, their control, their management, all of that is being put in place. And I think this is the first if I may say, larger government-supported and mandated framework for social finance in India. And I think it, it needs that we are able to build on it in a lot more of a structural way in terms of ensuring that we've got, we've got this whole little highway being built.

How do I build the side roads such that we don't have the last mile issues that, you know, you build this fantastic Metro, but to get to that, you don't have autos or you don't have, you know, peripheral kind of.

The real challenge is this that mixing up these things does not necessarily lend itself to the traditional models of how, not just India, globally, we think about taxation, we think about income, we think about impact.

[01:04:36] Rathish: As you were speaking about this , I was thinking of what type of capital is required for making an innovation happen. And I see four stages.

And I want to paint this back to you because this is a topic that's of huge interest for Sattva. I personally know of four you know, stages. There is a pure research stage. Which is where you're actually saying, is there a new substance, a new technology, et cetera.

There is a second where a research becomes an early innovation that is lab tested. Third is, it becomes from a lab tested model to a community tested model. Fourth is where it can actually achieve unit economics to actually be viable in the market. In my mind, the public spending can, is really option one and two.

The level one and two, largely is where public funding or maybe huge philanthropic capital can play a role. Level four is where markets should ideally pay for it. A VC picks it up, et cetera. But the level three really where it goes from being lab ready to community ready is really where today a massive funding gap exists because market is not ready to pick it up yet.

Federal funding says, listen my mandate is over. And I feel the blended finance opportunity could really be there at level three to say, can we measure that risk, make a possible instrument that can make it work. I don't know if that makes sense.

[01:05:48] Ramraj: Yeah. It does. In fact, I would say that even in level one and two, if there is a large scale, say a government initiative. To support one or two funds, there may be a fund of funds which supports one or two or three or four maybe biotechnology funds, which are exclusively focused more on just that, just the core innovation at the R and D level itself.

And, you know, the whole cycle may be between one, two, and three. I think there will be people who will be interested. Right now, you are not getting sort of market intermediaries or other people interested, primarily because there are not one or two heavy hands who are putting bigger money on the table.

And if government, you know, maybe uh, the BIRAC or, you know, the, the ministry behind brings that together in some fashion, you will see the emergence of some of these kinds of organisations and with government and maybe one, two, three large philanthropy sitting on top, and that provides the core kind of a capital for some of these things to be done. Already work is happening.

All I'm saying is there is opportunity there also in one, two, as well as three.

[01:06:54] Rathish: We are at the end of our conversation Ramraj.

But what I want to talk about in the last section is really way forward. What are some of the things that we absolutely should do? To make this happen. And I want to summarise some things we've already talked about so that you can build on it. One aspect of it is this entire mindset change that we require at the funder side, which I think we, and there is an organisation that needs to drive that.

And we have to push that at an ecosystem level. Second part that you talked about is this setting up of a bigger tent where different stakeholders can come together and cut across grants, for profits, blended finance, so that it doesn't become a niche problem, but a central problem. The third point you highlighted is that there is a remarkable opportunity with the social stock exchange coming in for us to define what a social enterprise is, what is an definition of impact, how do we create models and products for delivering finance, etc.

And the fourth is hopefully find the regulatory environment that can help us. truly build blended institutions in some form institutions that have the ability to blend diverse forms of capital and lend diverse forms of capital. I think all these are really broad agendas and ambitious ones, but I want to still come back and say, are there other things that we need to do, especially now that domestic philanthropy is supposed to grow within India and start a lot more work in solving for impact around much.

[01:08:16] Ramraj: So my thought on this Rathish is that the three, four things that we spoke about are the key building blocks. The major building block to me is and I'll answer this question. To me, domestic philanthropy is money which is there, which is available. You have to take an investment banking approach to the problem.

Or maybe let's talk about a family office. They will do public listed equity. They will do debt. They will do some AIFs. They will do venture capital and they will do some philanthropy. How does this market operate?

There is a whole bunch of investment bank. There's a whole bunch of other people, mutual fund, all of these guys go to them with a deal. Who is going to them with social sector deal flow, social sector deal flow, which is not just saying that, okay, this is the number of, we want to have this sort of engagement in this district in Tamil Nadu or this district in Bihar. Who is taking social finance, blended finance deal flow?

It's very sporadic. It's very anemic. Okay. And there are a variety of reasons why it's anemic. We spoke about it. Building the pipes in the social stock exchange is one way we can solve for it. Because if using the social stock exchange, we are able to clarify on a lot of the regulatory kind of issues. We can motivate a lot more regular other than obviously the Sattvas and the, blended finance company and others.

We can motivate a lot many more people to get into and get interested in some of these areas. Then what will happen is domestic philanthropy will see more deal flow. If they see more deal flow, there will be more understanding, more learning, more exposure, more knowledge, and over a period of time, more consummation of transactions.

Eventually, without having regular deal flow, domestic philanthropy or any philanthropy for that matter is not going to move. In any sector, you have to, you have to show them more deals. Okay, here it is. If one deal is coming in six months, I am sure, there could be some problem or this issue, that issue.

But if you are able to show them transaction, which have a higher degree of regulatory blessing plus regular frequency of transactions come to the table, you will definitely see domestic philanthropy and other people getting far more interested. You know, they have their own reasons why they are not participating today.

Okay. But I think clarifying on the regulatory side, using the social stock exchange as the platform from where we are building. Okay. The point is, everything is bespoke. The moment everything is bespoke, then every analysis, every evaluation is bespoke. And the moment every evaluation is bespoke, your timelines are long.

Your, the whole chain is much, much more complex. How do I simplify it? I, we need commoditisation of social finance moving from bespoke, uniquely design structures. How can I commoditise it? How can I dumb it down? How can I simplify it? How can I tell a CEO in a lift, in an elevator, in 15 seconds, what is exactly happening?

So what we really need to do is use the social stock exchange platform for commoditisation, for standardisation, for, it just needs to be as simple as someone saying, I went to this district and I did 5,000 cataract operations. It's a commoditised thing, there is nothing much that has to be in terms of a huge value addition.

Okay. So impact measurement, everything gets then much, much, much more commoditised. The moment it is commoditised, more money will come, easier flows, easier understanding, everything will fall in place. So I think working on helping commoditise transactions on the social stock exchange has to be a very big agenda.

So that will need a lot of work that has to be done with SEBI, with other players, with Ministry of Finance and others to see if there are any problems and how to fix some of those issues that we will have to undertake.

[01:12:14] Rathish: Absolutely. Domestic philanthropy is still not still new philanthropy money, you know, the behavior, how to give have not ossified to a point where people can't change it. It is now that we are starting to think, and if you can establish a new behavior now, it's a lot easier for us to then be able to drive it to scale as that numbers continues to grow.

And like you said, the social stock exchange is an opportunity. The number of intermediaries are few, but can grow and the India giving stories only starting in my opinion. So I think mining this as a de facto approach. And creating the deal flow in some sense, where every week we are evaluating something I think is going to be very important.

I think these are very, very good points. Ramraj, it's a pleasure to talk to you because you've seen this problem hands-on with a wide range of people. We started with a very broad definition of what is blended finance, got into the weeds around what it is not, what are some of the challenges today, what are the building blocks to make this happen and why now was probably a great time to make this happen.

Given some of the things that are going on. Thank you so much for your time. We've covered a lot of ground. It was a great conversation.

[01:13:21] Ramraj: Thank you. Thank you, Rathish. Pleasure to be here and all the very best. I think this is a great initiative, the Sattva Knowledge Institute, and I look forward to staying engaged. Thank you so much.

[01:13:32] Rathish: Thank you for listening to Decoding Impact, a Sattva Knowledge Institute production. If you liked my conversation with Ramraj, do head out to Sattva Knowledge Institute's website, where we have a lot more content on blended finance and capital for impact in general. If you liked the conversation do check out the season one and season two of Sattva Knowledge Institute on YouTube, Spotify, or wherever else you consume a podcast from.

Thank you for joining us today. I hope to catch you again in a fortnight for another episode of Decoding Impact.