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The Changing Landscape of Development Assistance

Advancing Green & Inclusive Growth in the Post-2015 Scenario – Perspectives from India

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1. The New Aid Landscape

The last decade has witnessed the evolution of a new landscape of development cooperation. The rise of new financial contributions and models for meeting international development objectives that are beyond the definition of traditional official development assistance has redefined the contours of development assistance. These new development contributions include non-development assistance committee donors (India and China), climate finance funds, social impact investors, philanthropists, global funds and less concessional flows[1]. The composition of development aid has predominantly shifted to non-traditional sources. The share of non-traditional share of development aid flows from being only $5.3 billion or 8.1% of total development assistance in 2000 increased tenfold to $53.3 billion or 30.7% by 2009[2].

This change in the development scenario is a result of a myriad of dynamic global political and economic scenarios. The pressures on local politics and resource drain have reduced the flow of traditional aid from the developed countries to the developing countries. Moreover, the growing awareness that integrating social and environmental action will benefit companies in the long run has manifested social consciousness in businesses and investors. While investing for a good cause is generally the good thing to do, there is a strong belief that investments in development benefit the companies themselves. For instance, investments in Corporate Social Responsibility (CSR) often help companies manage risks, avail of tax benefits, bolster brand reputation, increase access to capital and to differentiate themselves from competitors[3].

The reasons are manifold. The reality is that these factors have led to a diverse landscape of resources for international development. This change has mushroomed with it, a whole new area of catalytic and innovative development finance mechanisms that leverage resources to support and advance solutions for poverty eradication and development. These innovative and catalytic financial models bring together funds of diverse actors to advance smart solutions for people and the planet. The World Bank describes these innovative financing instruments as those that depart from traditional approaches to mobilizing and delivering development finance and entails “non-traditional applications of solidarity, PPPs, and catalytic mechanisms that (i) support fundraising by tapping new sources and engaging investors beyond the financial dimension of transactions, as partners and stakeholders in development; or (ii) deliver financial solutions to development problems on the ground” [4].

The acceptance and growth of development finance presents an opportunity for developing countries to effectively strategise and leverage this array of domestic and internationally available public and private finance complementarily as they advance towards green and inclusive growth in the post 2015 scenario. The following section advances some perspectives on utilising this existing and increasing pool of development resources for supporting green and inclusive growth in developing countries.

[1] European Centre for Development Policy Management, 2012
[2] Overseas Development Institute, 2013
[3] The Economic Times, 2013
[4] World Bank, 2009

2. Perspectives from the Developing World on Catalysing Development Finance for Promoting Green and Inclusive Development

Micro, Small and Medium Enterprise (MSME) development is crucial to advance sustainable green and inclusive growth in developing countries. An important source of employment opportunities and wealth creation, MSMEs contribute to economic and social stability. Local in nature, these decentralised models promote resource efficiency and patterns of sustainable production and consumption. They can effectively drive market development at scale and provide locally relevant solutions along with last mile delivery to serve the basic needs of people[5].

At the center of the subject of micro and small enterprise development in developing countries lies the critical issue of their limited ability to grow owing to poor availability of finance and technology as well as inadequate supporting policy frameworks. Where these support systems and frameworks exist, it is observed that owing to information asymmetries, implementation gaps and conservative financial institutions fail to support relevant cutting edge MSME solutions on time[6].

The potential of these new catalytic models to drive innovation collaboratively have been demonstrated through various initiatives aimed at community development across the developed and the developing countries. It is in the space of support to MSMEs, that this paper envisages the role of catalytic development finance (CDF) models. These CDF models embed the principle of leveraging from a diverse pool of resources – domestic, international, public or private - in their design. They support cutting edge business models and enterprise solutions that effectively promote green and inclusive development.

Two routes that been applied successfully and can be replicated/ adopted at scale to bridge the gap between financing enterprises and the large pool of development capital available to move towards a green economy are discussed. These include

1. **Investing Public Funds in Entities that service Micro and Small Enterprises:** Based on delivering financial solutions to development problems of the ground, this includes supporting entities that nurture micro and small enterprises that are green and employment intensive.
   (a) **Entity 1**: Entities that package and bundle enterprise portfolios for community development and enable support to entrepreneurs through finance, capacity building, technology and marketing support. They can bridge the financing gap between existing development capital and community entrepreneurs.

   (b) **Entity 2:** National level financial institutions that promote green and inclusive growth and bring together diverse funds for livelihood development and entrepreneurship. For instance, NABARD[7] and SIDBI[8] in India provide financial solutions for micro and small enterprise development to address critical development needs.

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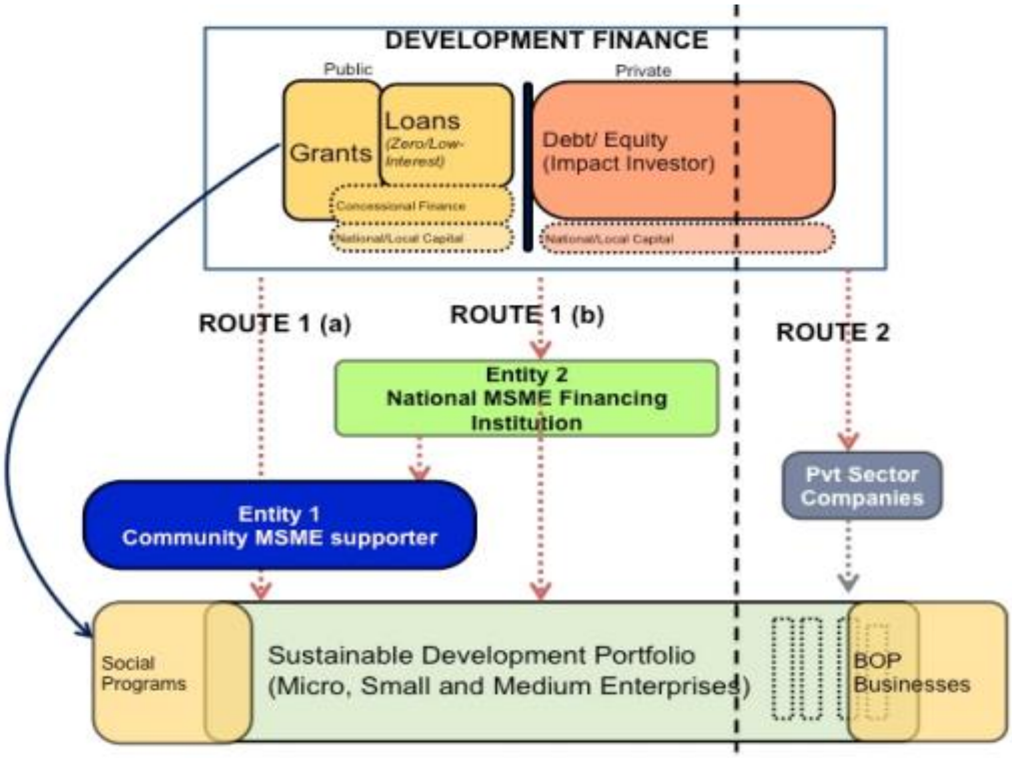
[5] Development Alternatives, 2013
[6] International Finance Corporation, 2012
[7] National Bank for Agriculture and Rural Development (www.nabard.org)
[8] Small Industries Development Bank of India (www.sidbi.in)

2. **Engaging Private Sector for Micro and Small Enterprise Development:** Traditional aid donors, philanthropists and investors have explored and emphasised the role of engaging private sector as stakeholders in development as they evolve to make aid more effective. Social enterprises and corporations (private sector) desirous of reaching out to the market at the base of the pyramid have been supported through provision of patient capital, low cost debt, soft loans, investment guarantees. More interestingly, private sector has been supported through a mechanism that helps create conducive market conditions such that business risks are mitigated and the development market is a safer investment.

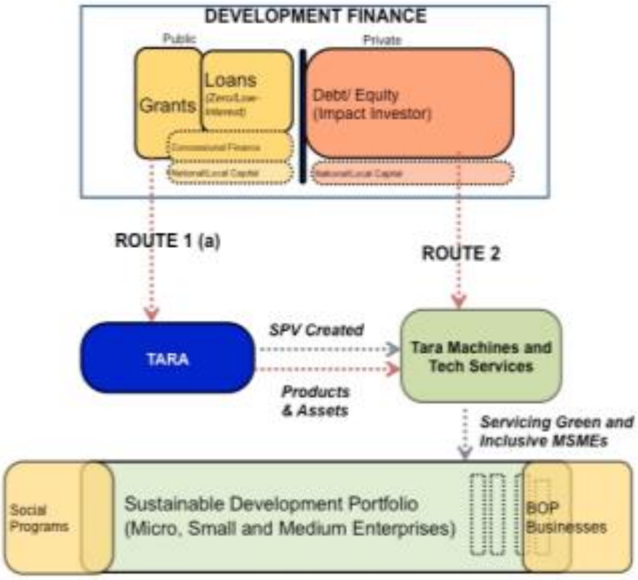


The two applied routes for MSME development promoting green and inclusive economy

These routes and synergies in development finance promise green and inclusive development in India and moving forward provide lessons that can be applied in the rest of the developing world. The following case studies provide an insight into how this has been facilitated.

Case Study 1: Facilitating Green Construction Based Enterprises - TARA, India

India has a housing deficit of almost 60 million units with over 40 million of these in rural spaces. Construction is an energy and resource intensive sector that leads to serious environment damage and contributes 24% of the national greenhouse gas emissions in India. There looms a dual challenge of meeting housing needs of the poor and dealing with the environmental impacts of the same. Alternative cleaner production technologies and product replacements offer a solution to this dilemma. Given the disaggregated nature of the construction sector, micro, small and medium enterprises (MSMEs) can play a critical role in enhancing access to these technologies



The model supporting MSME development

TARA (Technology and Action for Rural Advancement) supports MSME development by incubating business models, special purpose vehicles (SPV) and enterprises through development assistance. TARA, through this support developed and packaged green construction technologies that were subsequently transferred to the SPV - TARA Machines and Tech Services Pvt. Ltd. (TMTS) - for commercial sale. TMTS markets and delivers green technology business solutions for building construction to a global network of micro, small and medium enterprises in the market today. TARA built the capacity of TMTS through the transfer of products and assets as well as technical services. In addition to this, TMTS has also attracted private impact investment to help grow the network of MSMEs it services. Investment in TMTS has been through both debt and equity.

A Clean brick enterprise set up through TMTS

This catalytic approach has contributed to the development of 400 enterprises in last five years. These enterprises provide quality affordable and green building material to homeowners leading to better quality infrastructure development, reduced environment burden while creating decent green jobs and stimulating the local economy.

The model has also been replicated for the incubation and set up of TARA*life* Sustainability Solutions, a company that supplies quality of life products like clean cooking, water purification and solar lighting solutions in order to meet community needs.

Case Study 2: NABARD - Enhancing Natural and Social Capital

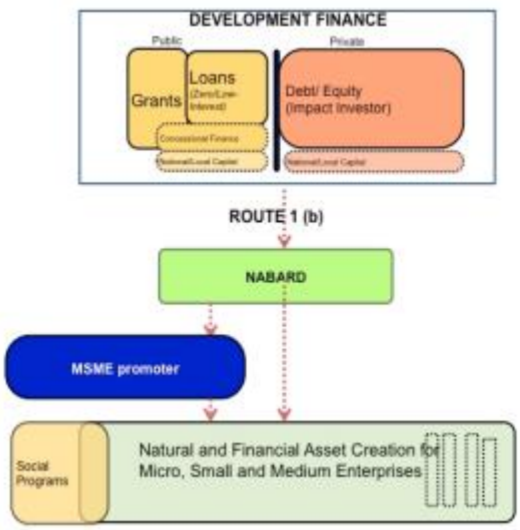
There is growing recognition among governments, finance institutions, banks, companies and development practitioners to the value of natural and social capital in underpinning wealth creation at a time when we face serious pressures on natural resources and the society. Major financial investments – from both public and private source, guided by smart and equitable policies – are being channelised to help transition to more green and inclusive pathways.

Developing countries like India need to marshal a large pool of investments and assets at scale through innovative channels to jumpstart with green and inclusive economic systems. The National Bank of Agriculture and Rural Development (NABARD), India is one institution that bundles together the growing menu of green economy based funds catalytically and channelises them to promote scalable models and businesses that can restore natural capital base, create livelihoods and nurture adaptive capacities of people in rural India.

Two interesting examples of projects focusing on building natural and financial assets include:

Rural Financial Institutions Programme: Despite the large number of financial institutions, most rural Indians, particularly the poor still remain excluded from adequate access to financial services. NABARD is implementing the reform programmes of financial institutions with the Government of India support. To enable quality and delivery for this, NABARD has partnered with GIZ for technical assistance and financial support to develop its own capacities and those of other the rural financial institutions and support structures. The programmes activities are coordinated with activities of Asian Development Bank, the World Bank, Germany's KfW Entwicklungs bank efforts and other cooperatives[9].

Umbrella Programme for Natural Resource Management (UPNRM): India is vulnerable to the impacts of climate change because of its high dependence on natural resources and its limited capacity to cope with it. UPNRM, supported by GIZ, develops and implements new green financial products that support partnerships for linking natural resource management, clean technologies and livelihood improvements. By helping develop and demonstrate approaches in which loans have encouraged sustainable forms of income generation, this programme is contributing to a gradual shift from grant-based to loan-based natural resources management projects. These projects have reached out to 100,000 households in 14 sub national states leading to improved resilience, increased agricultural production and improved standards of living[10]. UPNRM has explored opportunities to attract private investment and leverage on CDM for further benefits of communities under this programme.



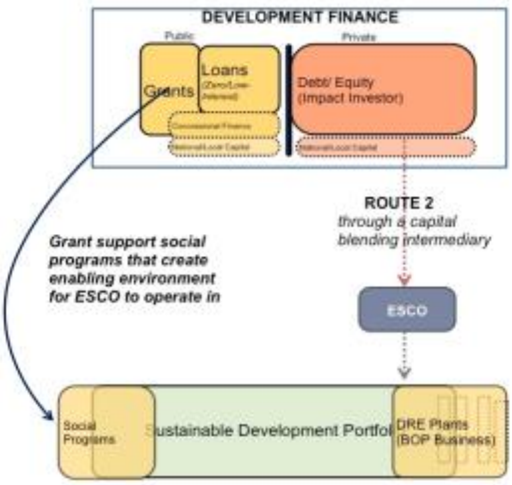
NABARD brings together public and private funds at a national level

[9] GIZ Website, (accessed April 2014)
[10] Down to Earth, 2013

Case Study 3: Smart Power for Environmentally Sound Economic Development

The urgent need for rural electrification to boost sustainable economic development in India is known. With private sector rapidly moving in the erstwhile government dominated sector and the increasing uncertainty related to fossil fuel pricing coupled with declining cost of renewable energy (RE), the RE avenue is being explored as an important opportunity for rural electrification.

With grid connected renewable energy likely to be competitive vis-à-vis fossil fuels, decentralised renewable energy (DRE) plants are beginning to emerge as opportunities to supply power for rural energy access. However, ESCOs (Energy Supply Companies) and investors are still exploring the commercial viability and business modeling of these rural DRE models. Given the nascence of the field, the unfamiliar environment, this exciting innovation fails to attract investment as it presents credit and commercial risks to investors. Moreover, there is a glaring mismatch between accessible capital and that what is needed to operationalise DRE models in India[11].



The SPEED Catalytic Model

A home lights up with DRE in Bihar, India

In a first of its kind, this financing gap has been mitigated under the Smart Power for Environmentally Sound Economic Development (SPEED) initiative of TARA and Rockefeller Foundation through ecosystem support using private capital and public funds catalytically.

As a first step, a purpose driven intermediary is established to blend together capital from various sources that include global impact investors, multilateral, bilateral institutions and mainstream financial institutions. This intermediary makes available the blended capital to the ESCO for investing in a DRE plant such that business risks and cost of capital are reduced. In this ecosystem, the ESCO is further supported through a grants mechanism for creating an enabling environment for the business to operate in. The grant support is utilised to support local CSOs such that they to mobilise and engage the local community for creating electricity demand further mitigating the risk of the business. This model has enabled the provision of clean assured energy to households and creation of micro enterprises and telecom towers across five sites in poor or non-grid connected areas in India. The model serves as a demonstration of how private sector engagement can serve development needs and promotes economic growth in a viable manner.

[11] ckinetics, 2013

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