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Innovative Financing for Development: An Anecdote from India

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Abstract: *Millennium Development Goals (MDGs) introduced by the United Nation in the early 2000s has forced both developed and developing countries to innovate new sources of development finance to assist the official development aids. Innovative financing includes innovations in both the way funds are raised as well as the ways funds are spent more effectively and efficiently on development by addressing global social and environmental challenges. Over the past 15 years the innovative financing mechanism has experienced a paradigm shift from offering a basic resource mobilization tools to a diverse range of solutions-driven financing instruments to discourage grant financing and encourage investment from private sectors in development. In this paper we try to study the development and contribution of Innovative financing at Global level and the role of Innovative financing instrument in the development of Indian economy. This paper has incorporated the shortcomings of traditional ODA and also studied the growth of innovative financing instruments in context of India to provide finance in depriving social areas like health, poverty, education and agriculture. India still faces enormous intermediate challenges in the growth of innovative financial instruments and there is more need to be done to face the growing challenges of development.*

Keywords: Millennium Development Goals, Innovative Financing, Official Development Assistance, AMC (Advanced Market Commitments), Diasporas Bonds and Green Bonds.

I. INTRODUCTION

An innovative source of financing is developed to provide avenues to mobilize resources in ways which are not dependent on donors and which are sustainable over the longer-term. This could transform the ways in which international development is financed in the future, as well as raise unprecedented sums for development and climate-related actions. Several innovative finance mechanisms have been developed to provide new and 'additional' revenue streams for development and can therefore help to meet these challenges by providing stable and predictable resources. They help to enhance the quantity and quality of development finance and provide avenues to mobilize long term resources in ways which are not dependent on donors (UNDP 2012). This could transform the ways of financing international development in the future as innovative sources of development finance are likely to expand much further in the future. As innovative sources of development finance expand and diversify in the future, country level ownership over such sources are required to ensure complementarity and effective coordination between different initiatives to ensure their constructive contribution to development over longer term. These Initiatives may have short term as well as long term injection effects. (GDI report 2014)

Initiatives which provide a more predictable and sustainable stream of resources over time may be used by beneficiary governments to support longer-term investments and development programmes and short term initiatives can be used to free-up additional fiscal space in the short-term. This means that innovative financing initiatives should be reviewed in terms of their ability to efficiently and effectively deliver development results both in the immediate and longer-term.Theobjectives of this research paper is to find the development and contribution of Innovative source of Finance at Global level and the role of Innovative financing instrument in the development of Indian economy. The discussion in this paper is divided into four parts. The first part gives the insight of Innovative Finance conceptual framework, itsorigin, a global view. The second parts discuss the Growth of innovative financing mechanism and its comparison with traditional flow. The third part discuss the different innovative instrument available for financing, in the last part we discuss the growth of these innovative financing instrument in India.

II. REVIEW OF LITERATURE

We have gone through different studies on Innovative financing but most of the studies on innovative financing are in the form of reports. Ketkar and Ratha (2009) focus on the various market based innovative methods of raising development finance. Although developing countries are well advised to use caution in incurring large foreign debt obligations, especially of short duration, there is little doubt that poor countries can benefit from cross-border capital whether channeled through the public or private sectors. They explained about the innovative financingmechanisms; they also quantify the mechanisms' potential size and then identify the constraints on their use. Finally, the papers recommend concrete measures that the World Bank and other regional development banks can implement to alleviate these constraints. OECD (2009) report presents the current status of innovative financing for development, analyses its main characteristics, and makes recommendations to ensure full compliance of innovative financing with aid effectiveness principles. DAC work on aid effectiveness suggests that innovativefinancing will secure maximum development impact, promote progress towards the MDGs and improve the global governance framework. UNDP (2012) explores recent experiences with innovative sources of development finance in order to capture lessons learned for the more effective implementation of both current and future initiatives. This report try to provide some insights into the pros and cons of different approaches and, as such, make a useful contribution to international policy discussions over the design and implementation modalities of both currentand future innovative sources of development finance. GDI report (2014)aims to accelerate the growth of innovative finance by creating a common language and vision for leaders in both the public and private sector to use as they explore innovative financing opportunities. According to this reports Innovative financing has mobilized nearly $100 billion and grown by approximately 11% per year between 2001 and 2013 and the successful innovative financing instruments address a specific market failure, catalyze political momentum to increase and coordinate the resources of multiple governments, and offer contractual certainty to investors. The focus of innovative financing is shifting from the mobilization of resources through innovative fundraising approaches to the delivery of positive social and environmental outcomes through market-based instruments.

Leading Group created in 2006 promoting innovative financing to respond to the challenges of sustainable development and climate, provide an informal platform of discussion and exchange of good practices on innovative financing. The group encourages international mobilization and the implementation of new initiatives. The concept of innovative financing covers a wide range of initiatives that the Leading Group is working to identify and classify into different categories in order to facilitate their understanding and promotion. Amongst the innovative mechanisms, the main initiatives considered by the Leading Group are the **International Finance Facility for Immunisation (IFFIm),** which allows benefiting from the liquidity of financial markets to start vaccination programs through the issuance of bonds guaranteed by governments. **Green bonds** that attract private investors to projects of mitigation or adaptation to climate change are also part of the initiatives under consideration. **Results-based mechanisms**such as **development impact bonds** (DIBs) or the **"Loan Conversion",** set up by the Japanese development agency in partnership with the Gates Foundation and Pakistan, are notable examples.

We have gone through different studies and find out that progress regarding the innovative financing mechanism in India is not taken in any studies, that why we work on this area.

III. CONCEPTUAL FRAMEWORK OF INNOVATIVE FINANCE

In the United Nations Millennium Declaration 2000, it was recognized that many challenges were there in the development process of a developing world in the form of maintaining good governance, creating equitable and productive trade and job opportunities, providing high standards of public goods (such as health and educational services), eradicating poverty, encouraging women empowerment, technological development and healthy public private sector partnership. This recognition led to the emergence of The Millennium Development Goals (MDGs) by the United Nation in which all the world's countries showed their consent to reduce poverty and accelerate development of the developing world within a time span of 15 years i.e. by 2015. Major goals included in the list of MDGs are poverty reduction, improved standards of health and education services, women empowerment and environment preservation. The volume of capital and revenue expenditures to meet such goals of MDGs have been estimated at around one trillion dollars per year and the cost associated with mitigation and adaptation with the changing climate realities have been estimated as 100 billion dollars per year (estimated by United Nations Framework 2007) . The public sector has limited resources available which are not sufficient enough to achieve all these goals. Thus it requires the financial assistance and technical expertise from private sector and supportive international environment in the form of development aids. They have set their targets as that, by 2015, every donor country should be spending 0.7% of its Gross Domestic Product on development cooperation. But maintaining the target of 0.7% is also a big challenge for most donor countries as they don't have much resource to provide Official Development Aid at this level.

This reality has forced both developed and developing countries to innovate new sources of development finance and mobilize resources from both public and private sectors to achieve MDGs and meet changing climate challenges. These challenges have led to the popularity of the concept 'innovative financing for development'. The term 'innovative financing for development' was introduced in the early 2000s by the UN members highlighting the value of inventing innovative sources of finance to lighten the financial burden of developing countries and since then its use has been increased in the mobilization of resources and process of development. There is no unique definition of ‘innovative financing for development’ in the global world. Different international organizations have given different interpretation of the same term. The Leading Group on Innovative Financing for Development highlights that innovative financing for development is “complementary to official development assistance. Innovative mechanisms are also predictable and stable. They are closely linked to the idea of global public goods and are aimed at correcting the negative effects of globalization” (Leading Group 2010).

The World Bank defines innovative financing for development as “the financing approach that helps to:

- Generate additional development funds by tapping new funding sources (that is, by looking beyond conventional mechanisms such as budget outlays from established donors and bonds from traditional international financial institutions) or by engaging new part-ners (such as emerging donors and actors in the private sector).
- Enhance the efficiency of financial flows, by reducing delivery time and/or costs, especially for emergency needs and in crisis situations.
- Make financial flows more results-oriented, by explicitly linking funding flows to measurable performance on the ground.”(World Bank 2009).

The OECD considers innovative financing “to comprise mechanisms of raising funds or stimulating actions in support of international development that go beyond traditional spending approaches by either the official or private sectors, such as:

• New approaches for pooling private and public revenue streams to scale up or develop activities for the benefit of partner countries;

• New revenue streams (e.g. a new tax, charge, fee, bond raising, sale proceed or voluntary contribution scheme) to raise funds for developmental activities on regular basis; and

• New incentives (financial guarantees, corporate social responsibility or other rewards or recognition) to address market failures or scale up ongoing developmental activities” (OECD 2009).

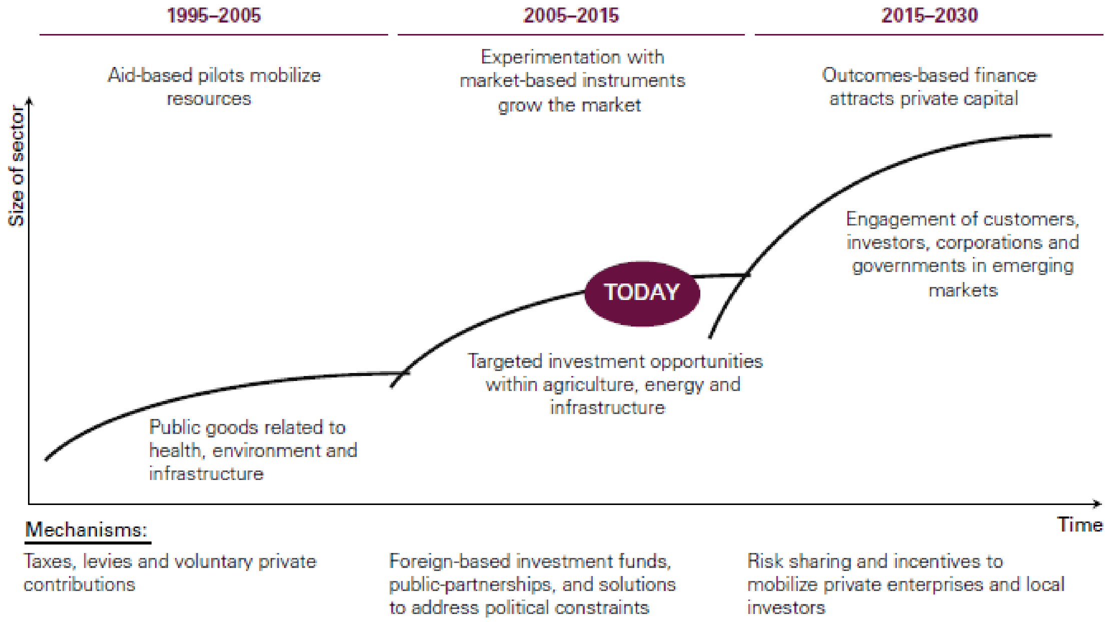
Thus innovative financing for development includes innovations in both the way funds are raised as well as the ways funds are spent more effectively and efficiently on international development by addressing global social and environmental challenges. So innovative financing focuses on arranging source of capital that complements traditional resource flows in the form of aids, FDI, remittances and official development assistance (ODA) from donor countries to mobilize additional sources for development. Within this vision, these financing mechanisms are considered as innovative sources as their resources are stable and predictable, they are complementary to ODA and they encourage the support of both public and private sector. The second dimension of innovative financing focuses on deployment (or use) of capital i.e. the ways in which resources can be mobilized in making development initiatives more effective and efficient by redistributing risk, increasing liquidity, and matching the duration of investments with project needs i.e. by following result oriented approaches to overcome specific market failures and institutional barriers.

IV. GROWTH OF INNOVATIVE FINANCING

There are three major drivers of growth in the innovative financing sector:

- New players for established financial instruments – Over the past 15 years, the international development community has encouraged new investors or players to invest in established instruments by evaluating them through existing risk frameworks. Instrument like green bonds attracts new participants in the form of pension funds and institutional investors. New standards are required to channelize the proceeds of these instruments to productive development goals so that these funds can be utilized most effectively.
- Expansion into new markets through growth of replicable products - The international development community has introduced new instruments in the existing markets such as performance-based contracts and range of solution driven financing instruments. These instruments offer strong opportunities to improve development outcomes in new sectors.
- Creation of new innovative financing products – Innovative financing mechanism has also lead to the emergence of new products that are theoretically promising, but have not shown demonstrated results. Donor governments and other funders have been encouraged to continue experimenting with these products so they can come up as the next important asset class.

Over the past 15 years the innovative financing mechanism has experienced a paradigm shift from offering a basic resource mobilization tools to a diverse range of solutions-driven financing instruments to discourage grant financing and encourage investment from private sectors in development. In 2001, instruments like bonds, guarantees and advanced market commitments focused primarily on mobilization of resources i.e. in order to encourage commercial investment, the public institutions or donor financial institutionseither promised to repay loans in the future or accepted the risk that projects may not succeed in the future. But in recent years, however, private sectors have been encouraged to share the risks and rewards form development by giving them equity stake through instruments like microfinance and investment funds—or through results-based financing mechanisms such as performance based contracts or awards and prizes.



(Source: GDI report 2014)

This shows the growth of innovative financing mechanisms over the long run. The focus of innovative financing is changing from taxes, levies and voluntary private contribution to foreign based investment funds. In the future innovative financing includes risk sharing and incentives to mobilize the private enterprises and local investors into markets.The public sector will continue todevelop and promote newer mechanisms such asdevelopment impact bonds. The creation of these typesof mechanisms is an important part of the innovativefinancing market.

COMPARISON OF INNOVATIVE FINANCING MECHANISM OVER TRADITIONAL FLOW

In initial days of the development phase, the major part of the resources devoted to the MDGs came from developed countries in the form of Official Development Assistance (ODA) which was not sufficient enough to meet the huge demand of funds amounted to one trillion dollars per year. However, global slowdown and financial crisis in the world economy since 2008 also led to decrease in the amount of ODA from development countries which can be supported by the fact that in 2010 the annual net ODA from the OECD (Organisation for Economic Co-operation and Development) members reached US$128.7 billion(MDG Gap Task Force, 2011)which has been declined for two years running to $125.6 billion in 2012 as they themselves strive to revive their own economy from financial crisis. Also it has a drawback of creating much pressure on government budget of donor countries as the major contribution in terms of aid flow from the government sector i.e. no initiatives were there to encourage private sector to contribute in the development of developing world.

Another limitation of traditional financial flows was in the form of market inefficiencies—such as unnecessary transaction costs, misaligned incentives, and lack of performance measures—which prevent the financial assistance that can be made available for achieving desired results.

Given the level of available resources of traditional financial flows, the uncertainty in the general macroeconomic environment, and the pressures on all government budgets of both donor and developing countries, a need was felt to develop innovative financing mechanism and sources to complement traditional ODA and generate more funds with significant expertise from the private sector so that development goals can be achieved.Innovative financing is required to createopportunities for public-private sector collaboration to harness all possible sources of financing that will help in addressing global economic, social, and environmental challenges.

Innovative financing has several benefits compared to traditional financial approaches. For example:

Innovative financing mechanism has introduced instruments that might mobilize, govern, or distribute funds beyond traditional donor-country ODA. These instruments encourages a wide range of potential contributors, including citizens, corporations, governments (of both developed and developing economies), and multilateral institutions to contribute in the phase of development. These innovative instruments are able to complement traditional ODA rather than substitute them as the most aid still flows through governments even in innovative financing mechanism in which other contributors are also involved because they have the sources and core responsibility to execute effective development-aid programs.

It encourages contribution in terms of capital flows from private sector to invest for social benefits. It has successful mechanisms to facilitate mobilization of resources to the unattended but required projects that would not otherwise receive them. For example, providing guarantees hasincreased investments in public goods (such as infrastructure, health and education sectors) and impact investing funds or micro-finance facility has been developed to support small and medium enterprises that might otherwise struggle to obtain capital.

Innovative financing mechanisms mobilize funds from private market playersintended to make investments by distributing risk, enhancing liquidity, reducing volatility, and avoiding timing mismatches, to the projects that are not able to get sufficient resources from traditional donor. For example, green bonds and other thematic bonds have been introduced to provide capital support in low-carbon infrastructure project such as wind farms, sustainable forestry management, and urban infrastructure.

It encourages cooperative public-private sector approach to use expertise of private sector in designing and developing new products and new markets in depriving social areas like health, poverty, education and agriculture which were traditionally facing financial crunches in the control of public sector For example, the pneumococcal advance market commitment sponsored by GAVI encouraged pharmaceutical companies to produce vaccines at larger scale by giving guarantee for minimum demand for pneumococcal vaccines at a pre determined price to make the vaccine available in developing countries at lower cost per dose. Thus Guarantees can offer private sector more low risk investment opportunities in new markets, and also results-based financing and performance-based contracts create opportunities to invest in markets profitably for private companies which they otherwise would not touch.

It also offers risk adjusted market returns bonds and access to new financial markets to private sector investors by issuing low risk bonds with AAA rating in the currencies with low volatility to generate more resources for sectors that support positive development outcomes. Most microfinance investment funds and impact investing funds offer risk-adjusted market returns.

Thus innovative financing mechanism are in the phase of developing and experimenting many innovative ideas of financing in terms of new instruments in existing markets, replicable products and identification of new markets to create a much needed platform for new players such as individuals, corporations and emerging private sectors to integrate themselves to play major role in supporting development phase as a way to either raise new funds or effective allocation of raised funds to achieve the MDGs with minimal government involvement, such as citizen-focused fund-raising initiatives like Product RED or Advanced Market Commitments, Performance based contracts etc.

V. GROWTH AND CONTRIBUTION OF INNOVATIVE FINANCING INSTRUMENTS IN INDIA

India as a developing country requires huge funds to support its infrastructural development programs and solve its major issues regarding poverty, unemployment, health and education quality and environmental imbalances; it has become one of the priority agendas in the recent five year plans. Currently, there are number of challenges in the existing financing mechanisms including sector limits, high interest rates and Asset-Liability mismatch, therefore there is a need to develop innovative financing mechanisms to finance development projects for sustainable economy. After the limits of traditional official development aid (ODA) in India were highlighted in 1991 BOP crisis it became essential for India to innovate new sources of domestic finance to improve BOP situation and to achieve the objectives of poverty reduction and conservation of global public goods. Many new in-house innovative instruments have been developed and used by India from 1991 onwards to promote development and to reduce its foreign assistance which can be listed as:

Green Bonds

The new Govt of India has ambitious plans to promote India’s renewable energy market with its new initiatives in such sector like promoting investment worth $100 billion to support the installation of 175 gigawatts of solar energy by 2022, planning to provide training to around 50,000 persons to create skilled solar army for new solar projects development. Huge funds and structured financing is required to stimulate and finance green projects. An innovative financing instrument like green bonds have been used to provide funds for vital green projects as their use has strictly been restricted to fund “green projects” such as renewable source of energy, energyefficiency space, reforestation or transportation etc. The Indian Renewable Energy Development Agency

(IREDA) issued its first tax free green bonds with AAA rating from top Indian rating agencies to support renewable energy projects in February 2014, offering the entry of India into the green bonds market with national government support for green financing. The bonds for Rs.1,000 each were issued to public and private sectors aggregating Rs.500 crore in total with 10,15 and 20 years term carrying interest at 8.16%, 8.55% and 8.55% per year respectively. In February 2015, Yes bank also came up with its first issue of green infrastructure bonds worth Rs.500 crore at 9% interest rate for 10 years for investing in renewable energy products including solar power, wind power, bio mass and hydel projects. It has got the subscription for Rs.1,000 crore including subscription from leading investors like insurance companies, pension and provident funds, mutual funds and Foreign portfolio investors. Such issues by IREDA and Yes bank will catalyze the Indian market for promoting the issuance of green bonds which is still in nascent stage in India.

Carbon Infrastructure

Low Carbon Infrastructure is a broad term which focus on all possible measures to reduce carbon footprint or emissions in basic infrastructure services such as green/energy-efficient transport, renewable power, reduced carbon emissions in coal-based power, etc. to yield multiple benefits for India in terms of human health benefits from non-polluting transport and environmental benefits in terms of improved forestry and natural resource management, waste reduction programmes, and reduced emissions of local pollutants from energy generating plants. But the funding requirement for promoting such projects is huge and could easily run into billions or trillions of dollars.McKinsey & Company (2009) report specify thatcarbon-dioxide emissions in India could be lowered by 30 per cent to 50 per cent by 2030 with the investment of around \$874 billion to \$1.1 trillion in energyefficient technologies in road transport, power, buildings, and appliances.

Huge sources of innovating instruments are required to support low carbon infrastructure projects. The Government of India has already explored such instruments at small level in the form of announcing the levy of a clean energy cess on coal @ Rs 50 per tonne in its budget for financial year 2010–11 which is applicable to the domestic coal produced as well as on imported coal. The proceeds of the cess could go into the low carbon development fund which could be utilized for funding low carbon infrastructure and technologies like a Central Road Fund which is created from the levy of a cess on petrol and diesel (Rs 2 per litre on petrol and High Speed Diesel) and is utilized for development and maintenance of national highways, state roads, rural roads, and for provision of road over- bridges/under- bridges and other safety features at unmanned railway crossings.

Carbon Cess/Levy

It can be a direct levy on airline travel and shipping, conventional power/fossil fuel generation, private transport, diesel, fuel oil and kerosene products; a cess on certain categories of electricity consumers; heavier customs duty on energy equipment for fossil fuels; a levy on energy-intensive materials or on energy-intensive industries. The proceeds of the suggested cess can go towards a low carbon development fund to provide debt financing for R&D projects, projects on market enhancement for renewable energy technology equipment, training and promotional campaigns projects and sharing the capital cost of LCI projects to improve the commercial viability of the project.

Green Cess

In India, the states of Maharashtra and Karnataka have levied a cess on the consumption of electricity. Green Cess on Electricity Consumption is being charged in Maharashtra @4 paisa per unit on industrial and commercial power consumers and at 5 paisa per unit on commercial and industrial consumers in Karnataka. The proceeds from the cess are used to fund certain categories of LCI and energy conservation funds.Indirect funds for LCI can also be explored in the form of the cap and trade system. Cap and trade provides mandatory cap to a company on its carbon emissionsto act as an environmental protection policy tool. If its emissions is under the cap, the unused cap as a credit can sold to another company whose carbon emissions is high as compared to the cap as these credits can be traded in an open market. This would create a large revenue stream which could be used to finance LCI.

Diaspora bonds

It is debt instrument issued by India to its overseas migrants/diasporas to generate new revenue streams for development and supporting balance of payment crisis by tapping its emigrants' savings. The issuance of Diaspora bonds has also been used as an innovative finance mechanism to mobilize additional private funding from these immigrants to finance development processes in India at lower cost and with less risk of financial outflow in case of economic difficulties unlike purely commercial investors. The government-owned State Bank of India (SBI) managed the first three issuesofdiaspora bonds in India which have raised a combined \$11.3 billion since 1991 to overcome balance of payment crisis in the period of economic instability. India, being the second most important issuer of Diaspora Bonds after Israel, has around 25 years of experience of raising funds with this instrument. In India, State Bank of India (SBI) through a successful series of bonds on different occasions in 1991, 1998 and 2000 to tap its diaspora base of NRIs. SBIlaunched India's first Diaspora bonds named as India Development Bonds (IDBs) worth $1.6 billion to solve the balance of payments crisis. Then in 1998 when a global embargo was declared against India after it exploded a series of nuclear test bombs in violation of the global nuclear weapons ban then it launched the Resurgent India Bonds (RIBs) worth $4.2 billion to raise funds when India had less capital access from international markets in the wake of the nuclear explosions in 1998. Once again in 2000 India issued the India Millennium Deposits, another diaspora bond and netted another $5.5billion. These three series of bonds were fixed rate bonds with maturity of 5 years,witha feature of not requiring SEC registration.The Indian experience signaled the world, especially those nations having significant amount of diasporas that diaspora bonds could significantly impact the injection of capital and foreign exchange earnings in developing country. Diaspora bonds in India have not yet widely used as a development financing instrument as the bulk of diaspora investments in India are in from of short term portfolio investments. Keeping in mind the need for larger, sustainable and effective two-way engagement between India and its diasporas, India is considering to promote it as a longer-term investment instruments to provide opportunities for overseas Indians to invest for growth of Indian economy.

Micro Financing

In its initial stage, it was a government driven plan in which the state governments and NGO provided SHGs access to funds by linking them to banks to provide them financial services (including thrift, credit etc). Later on private sector participation was encouraged in this sector which led to the formation of microfinance institutions (MFIs) that accessed bulk funds from banks and provide lending to the end borrowers i.e. SHGs members. The current focus of the microfinance sector is mainly on micro-credit with other products still evolving including thrift, insurance and remittance with huge potential demand in future due to high number of unbanked population.The MFIs stimulated high growth rate during the period from 2006 to 2010 by providing large scale availability of funds in terms of both debt and equity and potential demand in the form of micro-credit with other products like thrift, insurance and remittance. Thus the microfinance sector was growing at a faster pace due to easier access to funds from various private/public sector banks, NBFCs, development funds, no cap on charging interest rate (15 to 32%) and other financial institutions and potential demand existing in India till October,2010. This growth led to high competition, aggressive lending and higher over-indebtedness amongst the borrowers incertain regions like in Andhra Pradesh which led to crisis known as Andhra Pradesh crisis in 2010.Traditionally, MFIs have been providing credit services for both consumption and productive purposes. In 2011, RBI regulation put a limit that a minimum of 70% of the MFI loans are to be allocated for income generating activities to encourage poor people to take loan for increasing their livelihood activities rather than for consumption or emergency activities. As per the reporting of MFIs for 2013-14 shows that the proportion of income generation loan to non-income generation loan is 80:20 in their loan portfolio which are largely allocated for agriculture and trading.

The Indian Microfinance Sector has witnessed a significant growth over the past 15 years due to the lack of mainstream banking in various untapped rural and urban regions and increasing credit flow from the commercial banks. The number of MFIs has gone up from a few to several hundred with their operations in 28 States, 5 Union Territories and 561 districts in India. As per the report "Status of Microfinance in India" by National Bank for Agricultural and Rural Development (NABARD), the quantum of credit made available to the untapped small clients have increased outstandingly to33,500crore, majority of which (around 80%) were used for income generation purposes and number of clients benefitted with the Micro credit services provided by MFIs in a tailor made fashion crossed 33 million as of March 2014. The SHG bank linkage program has equally grown to touch the lives of individuals through SHGs with an outstanding gross loan outstanding of approx `43,000 crores and number of clients benefitted approximately 97 million households. Outreach proportion of urban clientele is increasing year on year (44% for 2013-14) as against the rural population. Women borrowers constitute 97% of the total clientele of MFIs, SC/ST borrowers constitute 19% and other minorities 14%. As by targeting women, SC/ST and minorities for providing microfinance services, MFIs are focusing to the wellbeing of the underprivileged and assisting with the financial inclusion agenda. The microfinance industry expects a 40 per cent growth in the gross loan portfolio in 2014-15, due to greater support from commercial banks to provide rising credit flow for on-lending to small investors.The large NBFC-MFIs have a larger client outreach in which Bandhan Financial Services has the largest client outreach i.e. approximately 16% of the total client outreach of the sector. In recent times, the nation has enlarged the scope of Financial Inclusion under The Pradhan Mantari Jan DhanYojana (PMJDY) by including insurance, pension and other activities to encourage micro insurance and pension along with credit and savings activities to promote the facility of micro financein India as it is a strong contributor in the economic development of India.

Education Cess

Education Cess is an innovative way of mobilizing financial resources to achieve the Government's mission of universalization of elementary education. Education cess is being collected under two separate categories for the Ministry of Human Resource Development i.e. an Education cess @ 2% on the aggregate of duties of excise for primary education and Secondary and Higher Education Cess @ 1% on the aggregate of duties of excise has been imposed as surcharge to provide finance for promoting secondary and higher education. This provide for the expansion of capacity in higher education that is required to accommodate 54% reservation of seats for socially and educationally backward classes. The money collected from the proceeds of higher education cess is being utilized for several schemes, including setting up of a finance corporation by the name of National Higher Education Finance Corporation (NHEFC) and to provide loans at concessional rates of interest to such agencies for establishment of higher and vocational institutions in educationally backward areas and for strengthening new Indian Institutes of Science Education and Research, IITs and IIMs. Besides, a part of the money has been planned to spend on the newly-launched RashtriyaMadhyamikSikshaAbhiyan scheme in secondary education.

Thus the fund generated under this education cess is being utilized to improve the quality of education in the country as it has led to increase in expenditure in the SarvaShikshaAbhiyan, India's main elementary education programme, mid-day meal programmes and on education projects in the country's North-Eastern regions. But till now complete transparency has not been developed to reflect the record of total collection and utilization of collected amount under this cess by the government in education sector. It has been observed that budgetary allocations for education are actually reducing every year, though the funds collected under the education cess is increasing which is a matter of big concern.From June 1, 2015 onward the rate of service tax would go up from 12 percent to 14 percent (service tax plus education cess from 12.36 percent to a consolidated rate of 14 percent). Thus the provisions levying education cess and secondary and higher education cess has become ineffective with effect from June 1, 2015, as the same has been subsumed in the service tax rate of 14 percent as notified by the Central Board of Direct Taxes.

Financial Transaction tax/ Security Transaction Tax

(STT) was introduced in the Indian capital market on a specific type of financial transactions like transaction of equities as well as their derivatives that are designated as taxable selectively to discourage excessive speculation in capital market and to stop tax avoidance of capital gains tax as many investors didn't declare their profits on the sale of stocks and avoided paying capital gains tax.The highest STT rate in the Indian stock market applies to cash deliverables. The rate of taxation has been revised several times since it was imposed and currently stands at the reduced rate of 0.1 per cent for both, buyers and sellers of cash deliverables. This tax is payable at the time of buying or selling of a taxable securities that are listed on the Indian stock exchanges and gets automatically added to the transaction price of the stock at the time the transaction is made, so there is no way to avoid it. As regards revenue generation, the average collection from STT since its implementation, has been in the range of 0.02-0.05 per cent of GDP which represents only a small percentage of GDP when compared with other Asian countries such as Hong Kong and Taiwan has been around 2.1 per cent and 0.8 per cent of GDP.

Tobacco tax

The Indian market for smoking tobacco is dominated by *bidis* (also known as*beedis*and *biris*). Roughly eight *bidis* are consumed for each cigarette (Sunley2009).India imposes specific excises (per 1000 sticks) on both bidis and cigarettes.In the last three years, excise duty rates on cigarettes has increased by a cumulative 75%.For cigarettes, the excise rates vary by the length of the cigarette. The excises on bidis and cigarettes are imposed under India's CentralValue-Added Tax (CENVAT). The CENVAT is a VAT-like levy that applies only through the manufacturing stage.The 2015 budget proposed 25% increase in excise duty on cigarettes of length not exceeding 65 mm and by 15% for cigarettes of other lengths, cigars, cheroots and cigarillos. The budget has also increased the excise duty on cut tobacco from Rs 60 per kg to Rs 70 per kg.The excise duty on cigarettes comprises four parts: (i) Basic Excise Duty(BED), (ii) National Calamity Contingent Duty (NCCD), (iii) the Health Cess(HC), (iv) 3% Cess.

Health Cess (HC)

In 2005-2006 the Government of India introduced a new dedicated levy called the Health Cess (HC). This HC applies to most smoked and smokeless tobaccoproducts. Health Cess is an additional excise duty of approximately 10% onbasic excise duty. In the 2005 Budget Speechin Parliament it was proposedthat the specific rate on cigarettes would be increased by about 10 per centand a surcharge of 10 per cent on ad valorem duties on other tobacco products including *gutkha*, chewing tobacco, snuff and *paan masala* would be imposed.*Bidis* are exempt (Government of India, 2005). The revenue from this levy is used to help finance the expenditures of the National Rural Health Mission(NRHM). The contribution to the NRHM is part of the regular NRHM budget.There is no Act mandating that the Health Cess be used for NRHM as in the case of the *Beedi*Workers Welfare Cess.

VI. CONCLUSIONS

Despite the progress made in development in India with the use of innovative financing mechanism along with other ODAs in terms of reduction of poverty, improving standards of health and education, developing infrastructure structure, India still face enormous intermediate challenges in the growth of innovative financial instruments such as lack of standards, data, liquidity, performance metrics and high start up costs to create new finance mechanism. Like an imposition of carbon tax or carbon cess may increase the cost of using fossil fuels at household levels, which will have both direct impacts on household energy expenditures, and indirect impacts on broader household expenditures. This put pressure on the GOI to use revenues raised at the national level by these resources to soften the distributional effects of the tax on affected communities and/or to support investments in lower emissions energy technology at home. Countering these challenges requires suitable policies and strategies to provide clear, comprehensive, and credible performance information along with the substantial financial resources needed for the implementation of such instruments to promote engagement of private sector along with the public sector assistance in development process. Though GOI have made considerable efforts to provide standard metrics for assessing the development impact of these investments as efforts have been made to provide standardize information for green bonds and micro-financing in the market, there is still no way to compare the social, environmental, and economic results of different form of innovative investments. A common infrastructure, in terms of credit rating agencies to rate different instruments on the basis of risk and returns analysis and common exchange markets would help in increasing the liquidity of these instruments by facilitating the smooth trading of products. Thus innovative finance mechanism has positive future in Indian market as the landscape of innovations in financing for development is very vast with the scaling up of existing initiatives along with the development of new innovation schemes like AMC schemes can be promoted with the support of Serum Institute India which has its world-wide distribution services for medicines at cheaper cost. Another initiative in term of imposing some airline taxes to charge some amount from travelers towards economic development contribution and to follow EU taxes for carbon emission can be developed to enhance development process in India.

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