



# **AVAADA POWER**

Community Development Certificate



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# CONCEPT – Community Development Certificate

Rationale behind CDC (a win-win proposition for GOs / NGOs / corporate sector)

The revenue of the 'top 7' Fortune 500 Companies, in 2012, was estimated at US\$ 1,824 billion\*; which was equivalent to India's GDP (US\$1,824 billion\*\*).

The Corporate sector has standardised processes and systems, and efficiencies in-built into their working culture, which enable them to achieve greater 'economies of scale'. If the professional expertise and resources of the corporate sector can be brought into the human development space, it could greatly increase the scale and effectiveness of human development initiatives, thus enabling a larger 'impact'.

Corporates do not always have the domain knowledge to undertake development activities. The CDC provides a mechanism for them to meet their voluntary or compulsory social obligations. For example, corporates interested in contributing to the human development agenda OR those required to spend 2% of profits on CSR, could purchase CDCs which represent verified and measured social benefits / outcomes / impact that are actually created on the ground and are observable, measurable and verifiable.

By providing a mechanism for engaging the Corporate sector in development programming, the government can mobilize additional resources to supplement their development spending, implement schemes and meet their social targets.

Engaging the Corporate sector in a Public-Private-Community-Partnership (PPCP) mode and/or creating a market-based mechanism (~ CDC) for supporting development projects can help enhance professionalism & quality in the social sector.

# CONCEPT - CDC

## Objective of CDC

To create a tradable mechanism for channelizing the expertise and resources of the Corporate sector, to improve the outreach and impact of human development initiatives. This would facilitate increased investment in development programmes (through promotion of social enterprises, professionally managed NGOs etc.) and help further the government's agenda of social & financial inclusion.

## Proposed Modality

The CDCs could be generated through projects in pre-defined human development sectors, to facilitate equitable socio-economic development, in bereft or under-performing areas.

Corporates bidding for certain defined government tenders (i.e. above a certain value, say Rs. 100 Crores) would be required to furnish Community Development Certificates (CDCs) as a precondition for bidding.

Making CDC requirement mandatory for bidding is expected to create a market for such certificates. In order to meet this requirement, corporates could either invest in CDC generating projects or buy existing CDCs from the market. The demand for CDCs would further encourage other entities like other corporates, social enterprises or NGOs to invest in production of CDCs.

# REVIEW OF COMPARABLE CONCEPTS: **KEY LEARNING**

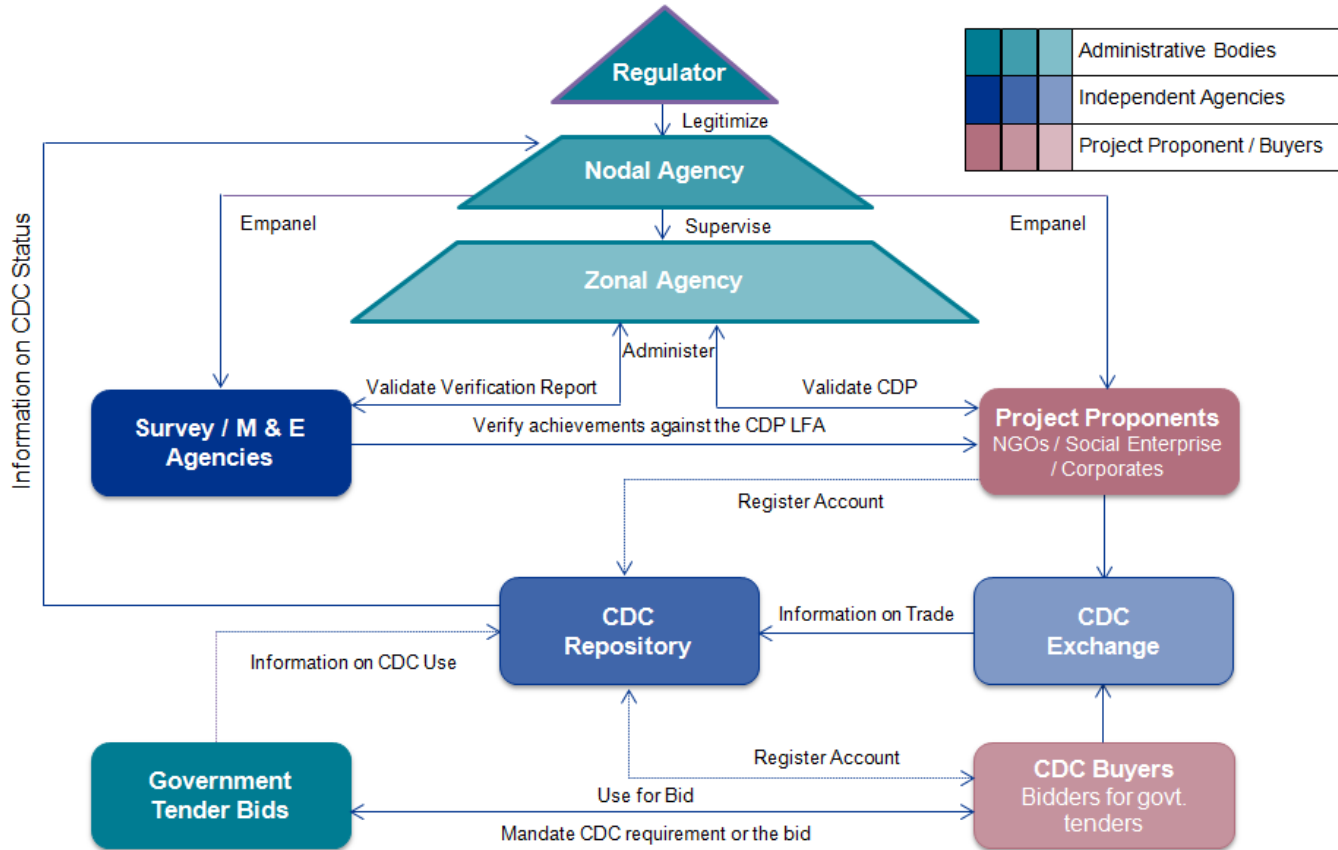
Parameter	Learning from Review of Comparable Concepts	Application to CDC
<b>Goals</b>	<ul style="list-style-type: none"> <li>• CDM only truly comparable concept               <ul style="list-style-type: none"> <li>- Uses tradable credit to promote development goals</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• <b>Base CDC ecosystem and institutional set up on CDM system</b></li> </ul>
<b>Creating Market</b>	<ul style="list-style-type: none"> <li>• Mandatory compliance stimulates CDM demand, whereas voluntary market provides additional demand</li> </ul>	<ul style="list-style-type: none"> <li>• <b>CDC can be made mandatory for tender bids and could be potentially linked to 2% CSR obligation</b></li> <li>• Open CDC purchase to individuals to stimulate additional demand</li> </ul>
<b>Coverage</b>	<ul style="list-style-type: none"> <li>• CDM limits activities which can generate credits               <ul style="list-style-type: none"> <li>- Easier administration</li> <li>- Easier to monitor &amp; verify</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• CDC generation can be limited to sectors having maximum impact on human development viz., health, education, poverty &amp; infrastructure</li> <li>• <b>Proposed activities should be observable, measurable &amp; verifiable</b></li> </ul>
<b>Sustainability</b>	<ul style="list-style-type: none"> <li>• High transaction costs due to technicality &amp; intermediaries</li> <li>• Small projects not feasible</li> <li>• Administration costs met by a charge on every project</li> </ul>	<ul style="list-style-type: none"> <li>• Define minimum project size for the CDP</li> <li>• <b>Charge a fee per project to cover administrative costs</b> (inclusive of the services of a empanelled M&amp;E agencies on a fixed percentage basis)</li> <li>• <b>CDC Exchange supported by fee</b> (commission) on every trade</li> <li>• Nodal Agency charges a fee for empanelment of agencies</li> </ul>

# REVIEW OF COMPARABLE CONCEPTS: **KEY LEARNING**

<b>Project Management</b>	<ul style="list-style-type: none"> <li>• Credibility &amp; fraud are major concerns. CDM is the most rigorous             <ul style="list-style-type: none"> <li>- Pre-approved methodologies for project creation / M&amp;E</li> <li>- Third-party verifiers validate and certify projects</li> <li>- Information is managed electronically</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• <b>Autonomous Nodal Agency</b> will administer CDCs</li> <li>• <b>Pre-approved baseline data / M&amp;E methodologies</b></li> <li>• <b>Verification by duly empanelled but independent M&amp;E agencies</b></li> <li>• <b>Electronic repository</b> stores all CDCs</li> </ul>
<b>CDC Trading</b>	<ul style="list-style-type: none"> <li>• Credit status maintained in electronic registry accounts</li> <li>• Credits are homogenous, divisible &amp; represent real outcome</li> <li>• Prices are set by market forces</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Use CDM model of repository and exchange</b></li> <li>• CDCs are homogenous, divisible &amp; represent Rs. X social value generated</li> <li>• Price of CDC determined by market</li> </ul>



# ECOSYSTEM OVERVIEW



# SECTORS BEARING CDC OBLIGATION

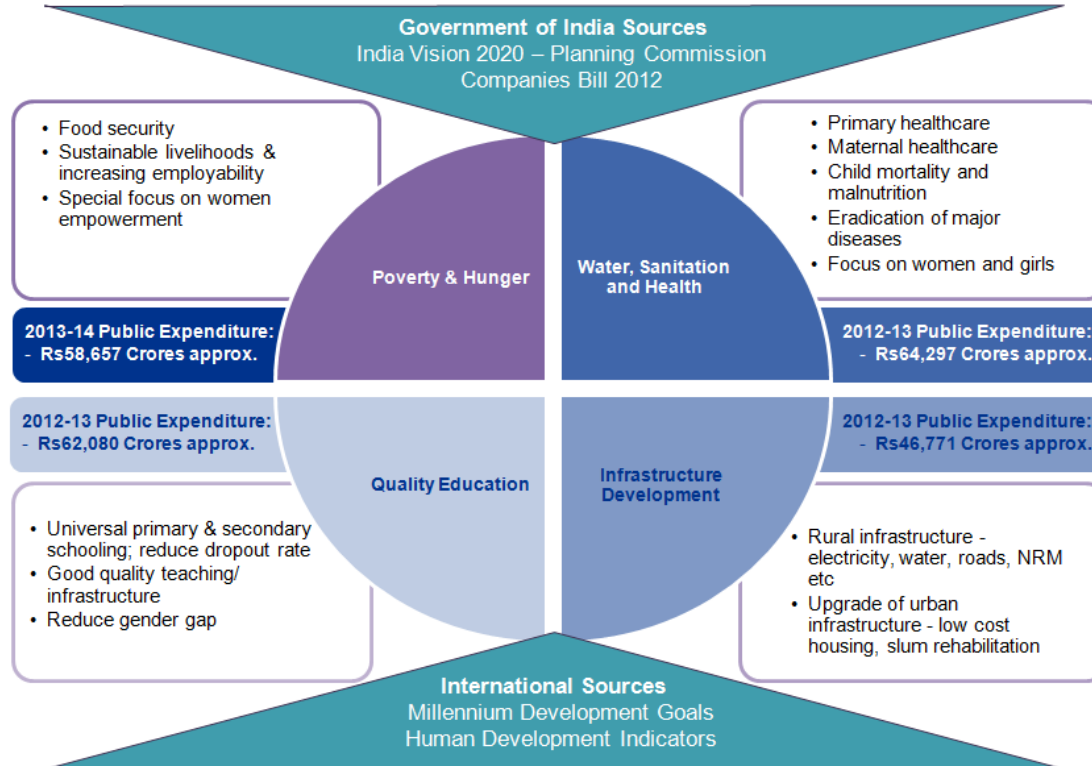
- Mandatory that bidders for government tenders submit CDCs worth 1.0% of tender value at time of bid
- All tenders above Rs. 100 Crores to have CDC requirement as a qualification criteria
- A subset of tenders to be taken for piloting - potential filtering criteria to select this subset given in below table :

Criteria	Rationale	Tendering Bodies	Companies Affected
<b>Highly Extractive Industries</b>	Activities like mining, electricity generation, infrastructure are more resource intensive and hence industries in these sectors should have greater social obligation	Ministries of : - Power - Coal - Petroleum and Natural Gas - Mines - Road Transport & Highways - Railways - Heavy Industries	All corporates working in these sectors and frequently bidding for government tenders
<b>Government Outlays / Tender Values</b>	Ministries with large budgets tend to have higher value tenders compared to ministries with smaller outlays. Targeting few high value tenders would create demand for CDCs more efficiently than targeting many low value tenders	Above Ministries, plus: - Ministry of Defence - Ministry of Planning - Ministry of Urban Development - Ministry of Rural Development - Ministry of Telecommunications	Defence contractors, Infrastructure companies
<b>Company Size</b>	The administrative and transaction costs involved in generating CDCs are significant and smaller companies may not be able to meet these costs		Corporates with net worth > Rs. 500 Cr, turnover > Rs. 1000 Cr or Net Profit > 5 Cr*

\*- Criteria adopted from Companies Bill 2012



# SECTORS ELIGIBLE FOR CDC GENERATION (INVESTMENT SECTORS)



# CHARACTERISTICS OF CDC

CDC Characteristics	
<b>Value Proposition</b>	A tradable instrument to channel resources & professional expertise from the Corporate sector into development projects/programmes. Specific government tenders require bidders to submit CDCs worth 'x'% of tender value
<b>Offering / Instrument</b>	CDCs will be legally recognised instruments that are: homogenous, divisible, easily measured, available in multiples, can be stored and are perishable (have a shelf life)
<b>Unit of measure</b>	1 CDC = Generation of verified social impact of Rs.50,000 from a validated Community Development Plan (CDP)
<b>Issue of CDCs</b>	CDCs are issued by Nodal Agency on verification of successful completion of milestones mentioned in CDP by an independent verifier and validation by Zonal Agency
<b>Holding</b>	CDCs are represented by an electronic entry in the Repository account. Each CDC has a unique serial number. Trade can only be carried out by an entity who has a registered Repository account
<b>Transferability</b>	CDCs legally transferred from one entity's Registry account to another's account and traded in primary and secondary markets. Sale only through official CDC trade exchange. Bilateral transfer is not permitted
<b>Price</b>	Price will be determined through market forces of demand and supply
<b>Validity</b>	A CDC will be valid for a period of 5 years from date of issue or until use in successful bid after which it will lapse/expire
<b>Property Rights</b>	CDCs will be considered property and can be owned. Ownership is protected and legally enforced
<b>Accounting Treatment</b>	CDCs will be treated as inventory (short term asset) in the balance sheet of the holder. The life of the CDC is 5 years, at the end of which, the asset will be fully written down (this is only an accounting treatment, notional value remains same throughout life). The CDC transactions will be subject to the applicable taxes

# IMPACT ASSESSMENT METHODOLOGY & AWARD OF CDCS

- As evaluation is the critical aspect of CDC implementation process, a comprehensive and efficient M&E framework need to be designed for the CDPs. Primary features of M&E framework will be the ability to capture:
  - What has changed against the baseline of the project
  - How much of this change can be attributed to the project
- The baseline study is an essential part of the M & E framework. It enables proponents and evaluators to:
  - Understand the status of target population on selected indicators before project interventions
  - Set goals of the CDP; identify needs of the target population; and formulate desired CDP outcomes / inputs
- Measuring the project impact on a target population and attributing the impact to the project can be done by use of:
  - With-Without Analysis**– A comparable area where the project was not implemented is used as a baseline while data on selected indicators from this area is compared with data from project area
  - Before-After Analysis** – The selected indicators are measured before and after project but only in the project area

While with-without analysis allows a causal link to be established between outcomes and project activities; it is difficult to find truly comparable areas, the process is expensive, time-consuming and requires advanced statistical knowledge. Therefore Before-After Analysis will be used for measuring impact of CDCs

- The translation of outcomes and impacts of a project into monetary terms would provide a basis for CDC allocation, with: **1 CDC being equivalent to generation of verified social outcomes worth Rs. 50,000/-**

# IMPACT ASSESSMENT TOOL - SOCIAL RETURN ON INVESTMENT (SROI)

As CDC is considering diverse sectors like poverty, health, education and infrastructure, a methodology which can equate outcomes across these different sectors & ensure CDCs from different projects are homogenous. The tool would need to:

- Assess the social, environmental and financial impact of an intervention in consistent pecuniary terms, using Cost-Benefit Analysis, Opportunity-Cost Analysis and Impact Assessment methods
- Use proxies to assign the value to all outcomes, including those that do not have direct market values and which are often left out from traditional impact assessment

Nodal Agency will design M&E framework based on the Social Return on Investment (SROI) tool that meets these criteria and could be used for CDC assessment. Brief process of SROI methodology usage is given below:

- SROI tool uses the concept of “Theory of Change” to analyse input, output, outcome & impact
- Each impact is then analysed to identify the ‘indicators of change’
- Each indicator is then used to assess the total monetary returns of the social impact using ‘financial proxies’
- Actual monetary returns for the project are then calculated using deadweight, drop-off, attribution and displacement as defined below:
  - Deadweight:** an estimation of the social benefits that would have happened, without the intervention
  - Drop-off:** the proportion of outcomes which are not sustained.
  - Attribution:** the process of considering impact in isolation of any other intervention by other agencies
  - Displacement:** the positive impacts on one stakeholder in cost of negative impact on other stakeholders

## A. PROCESS OWNER

CDC Process Owner	
Roles and Responsibilities	<ul style="list-style-type: none"> <li>• Has authority over and makes rules for the CDC system and assign roles and responsibilities to various functional bodies</li> <li>• Gives legitimacy to recommendations, decisions, empanelment approvals and CDC issue by Nodal Agency</li> <li>• Has oversight over the Nodal agency and will:                             <ul style="list-style-type: none"> <li>○ Review annual reports of the Nodal Agency</li> <li>○ Review the sectoral and geographic spread of CDC projects and take appropriate decisions to ensure that Nodal Agency's criteria for selecting CDPs is meeting National Development Priorities</li> <li>○ Review the sectoral and geographic distribution of project proponents and independent monitoring and evaluation agencies and take decisions to ensure Nodal Agency's empanelment policies are sound</li> </ul> </li> <li>• Advocates the CDC concept within and outside the government:                             <ul style="list-style-type: none"> <li>○ Produces and lobbies for relevant regulatory support for CDC ecosystem</li> <li>○ Works to gain Corporate sector buy-in for CDC</li> </ul> </li> </ul>
Selection Criteria	<ul style="list-style-type: none"> <li>• Is a government (central or state) body with authority to carry out the desired role</li> <li>• Is functioning in field related to development or corporate affairs or finance or law</li> <li>• Has experience with comparable responsibility</li> <li>• Availability of experts / qualified staff to undertake the roles and responsibilities defined for the process owner</li> <li>• Availability of requisite physical and technological infrastructure</li> <li>• Ability to settle disputes related to different CDC concerns</li> </ul>

## B. NODAL AND ZONAL AGENCIES

	• Nodal Agency	• Zonal Agency
Roles and Responsibilities	<ul style="list-style-type: none"> <li>• Advocate the CDC concept</li> <li>• Identify development sectors, indicators and milestones</li> <li>• Research, publish, disseminate information on identified sectors</li> <li>• Identify the monitoring and evaluation methodology and design framework for CDC projects</li> <li>• Empanel Project Proponents and M &amp; E Agencies</li> <li>• Maintain database of CDPs</li> <li>• Oversight of Zonal Agencies functioning</li> <li>• Issue CDCs and send records to repository</li> <li>• Any other CSR / Sustainability activity delegated to it</li> </ul>	<ul style="list-style-type: none"> <li>• Conduct baseline surveys and design Community Development Plan for different regions</li> <li>• Validate CDPs submitted by project proponents and send to Nodal Agency database</li> <li>• Validate M &amp; E report submitted by third-party agencies</li> <li>• Provide advisory services to the investor, proponent, and other stakeholders</li> </ul>
Selection Criteria	<ul style="list-style-type: none"> <li>• Experience with comparable responsibility</li> <li>• Availability of experts / qualified staff to undertake the roles and responsibilities defined for the Nodal Agency</li> <li>• Recognition for the expertise in development sector from the Government accreditation body</li> <li>• Availability of requisite physical and technological infrastructure</li> <li>• Ability to monitor the CDC Trade Centre operations</li> <li>• Ability to settle disputes related to CDC concerns</li> </ul>	<p>Same as Nodal agency and the following:</p> <ul style="list-style-type: none"> <li>• Physical presence in the zone</li> <li>• Human resource capacities for operational and technical functions including knowledge of regional languages</li> </ul>

# C. IMPLEMENTATION AGENCIES: CDC PROJECT PROPONENTS

## • Project Proponents

### Roles and Responsibilities

- Register with the Nodal Agency & keep up to date on eligible sectors, geographies for CDPs and the development goals / indicators for those sectors
- Prepare CDPs according to the formats & methodologies prescribed by the Nodal Agency and submit for validation to Zonal Agency
- Submit to Zonal Agency periodical progress reports on status of the project against the milestones mentioned in CDP
- Advocate the development project
- Maintain M & E data for all identified indicators and provide it in a transparent and timely manner to independent verifiers
- Research, publish, disseminate information on impacts achieved
- Register with CDC trade exchange and maintain record of CDC's generated and traded
- Comply with norms set by Nodal Agency

### Empanelment Criteria

- Experience with the comparable responsibility performed in the past or currently undertaken
- Experience and skills required for project management, delivery and monitoring
- Ability to understand and develop CDPs as per the formats and methodology defined by Nodal Agency
- Recognition as a legal, registered entity by the Government of India
- Reputation for integrity, transparency, and successful impact creation
- Geographical presence in the area where they propose CDPs and local language knowledge
- Availability of physical and technological infrastructure for operational purpose
- Availability of experts / qualified staff to undertake delivery of the CDP



# D. INDEPENDENT MONITORING & EVALUATION AGENCIES

<ul style="list-style-type: none"> <li>Independent M &amp; E Agencies</li> </ul>	
<b>Roles and Responsibilities</b>	<ul style="list-style-type: none"> <li>Understand the CDP as submitted by the project proponent</li> <li>Design and modify the M&amp;E framework for project based on the guidelines provided by Nodal Agency</li> <li>Identify and define the M&amp;E indicators for the project proponent and nodal agency</li> <li>Conduct continuous and periodic M&amp;E of projects: Design M&amp;E tools for each project approved by Nodal Agency and being implemented at the site.</li> <li>Submit the M&amp;E report for project to the Zonal and Nodal agency</li> <li>Maintain the transparency of records and ensure the governance practices while conducting the M&amp;E</li> </ul>
<b>Empanelment Criteria</b>	<ul style="list-style-type: none"> <li>Should be a registered legal entity and provide documentation of this status</li> <li>Should have the financial stability, insurance coverage and resources required for its activities</li> <li>Should have sufficient arrangements to cover legal and financial liabilities arising from its activities</li> <li>Experience with the comparable responsibility performed in the past or currently undertaken</li> <li>Experience and skills required for M&amp;E and impact assessment in development sector and ability to use and implement the methodologies approved by Nodal Agency</li> <li>Should be recognised by a government accreditation body and be able to demonstrate credibility, independence, non-discriminatory, transparency, and compliance with national law</li> <li>Availability of experts / qualified staff to undertake the roles and responsibilities defined for the M&amp;E agency</li> <li>Availability of resources for continuous and periodic monitoring of projects</li> </ul>

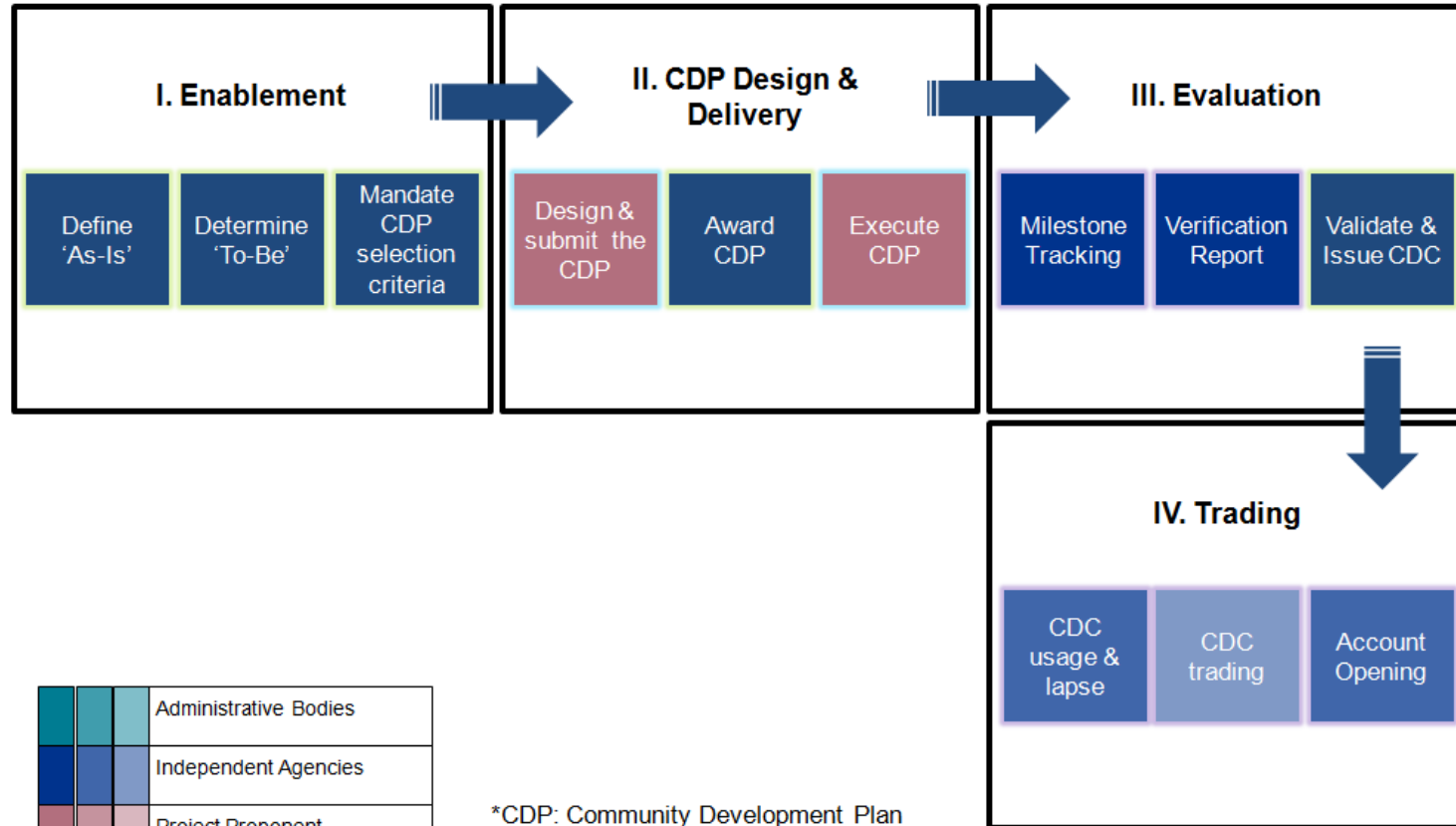
## E. CDC REPOSITORY

<ul style="list-style-type: none"> <li><b>CDC Repository</b></li> </ul>	
<b>Roles and Responsibilities</b>	<ul style="list-style-type: none"> <li>• Maintain continuous electronic means of communication with all its participants, Nodal Agency, CDC exchange, buyers and sellers, regulators, etc. and obtain necessary information on all CDCs issued and traded</li> <li>• Maintain Registry accounts for buyers and sellers, transfer CDCs from one account to another on receiving information of a trade from the CDC exchange, update balances of the accounts and issues statements when required</li> <li>• Provide information to trade exchange of issued CDCs</li> <li>• Obtain information from Trade Exchange on all traded CDCs (primary, secondary, tertiary)</li> <li>• Ensure that interests of the buyers and sellers is adequately protected and register the transfer of CDC in the name of the transferee only after being informed by exchange that payment for transfer has been made</li> <li>• Should carry out periodical internal monitoring and evaluation of its controls, systems, procedures and safeguards</li> <li>• Should have systems for external review of its systems and procedures and submit the findings to Nodal Agency</li> <li>• Form registry panel for maintaining continuous record/log of CDCs , issued and available for trade in the market and ensure that CDCs that lapse due to end of validity or successful use in a bid are removed from the repository</li> <li>• Transparently make information available to the public after ensuring it is not of personal or confidential nature</li> </ul>
<b>Selection Criteria</b>	<ul style="list-style-type: none"> <li>• Experience with the comparable responsibility performed in the past or currently undertaken</li> <li>• Availability of experts / qualified staff to undertake the roles and responsibilities defined for the Nodal Agency</li> <li>• Recognition for the expertise from the Government accreditation body</li> <li>• Availability of physical and technological infrastructure for operational purpose</li> <li>• Systems and procedures to co-ordinate with CDC issuer (Nodal Agency), CDC trade exchange, and the participants, to reconcile the records of ownership of securities with the issuer or its agent, and with participants, on a daily basis.</li> </ul>

## F. CDC TRADE EXCHANGE

<ul style="list-style-type: none"> <li>Trade Exchange</li> </ul>	
<b>Roles and Responsibilities</b>	<ul style="list-style-type: none"> <li>Maintain continuous electronic means of communication with Nodal Agency, CDC repository, brokers, buyers and sellers, regulators, etc. and obtain necessary information on CDCs issued and entities with Registry accounts</li> <li>Create technological platform for trading CDCs</li> <li>Facilitate trade of CDCs between investor and implementation agencies that have registry accounts with the Repository</li> <li>Track primary, secondary, and tertiary sales of CDCs and provide Repository and Nodal Agency updated information on all trades that take place</li> <li>Ensure that no trade takes place unless participants hold registry account</li> <li>Produce reports of trade on regular basis</li> <li>Monitor and report potential fraudulent trades</li> <li>Put in place procedures for internal and external monitoring and evaluation of its systems, processes and safeguards and submit the findings of the same to the Nodal Agency</li> </ul>
<b>Selection Criteria</b>	<ul style="list-style-type: none"> <li>Experience with the comparable responsibility performed in the past or currently undertaken</li> <li>Availability of experts / qualified staff to undertake the roles and responsibilities defined for the Nodal Agency</li> <li>Recognition for the expertise from the Government accreditation body</li> <li>Availability of physical and technological infrastructure for operational purpose</li> <li>Systems and procedures to co-ordinate with CDC issuer (Nodal Agency), CDC Repository, and the participants, to reconcile the records of ownership of securities with the issuer or its agent, and with participants, on a daily basis.</li> </ul>

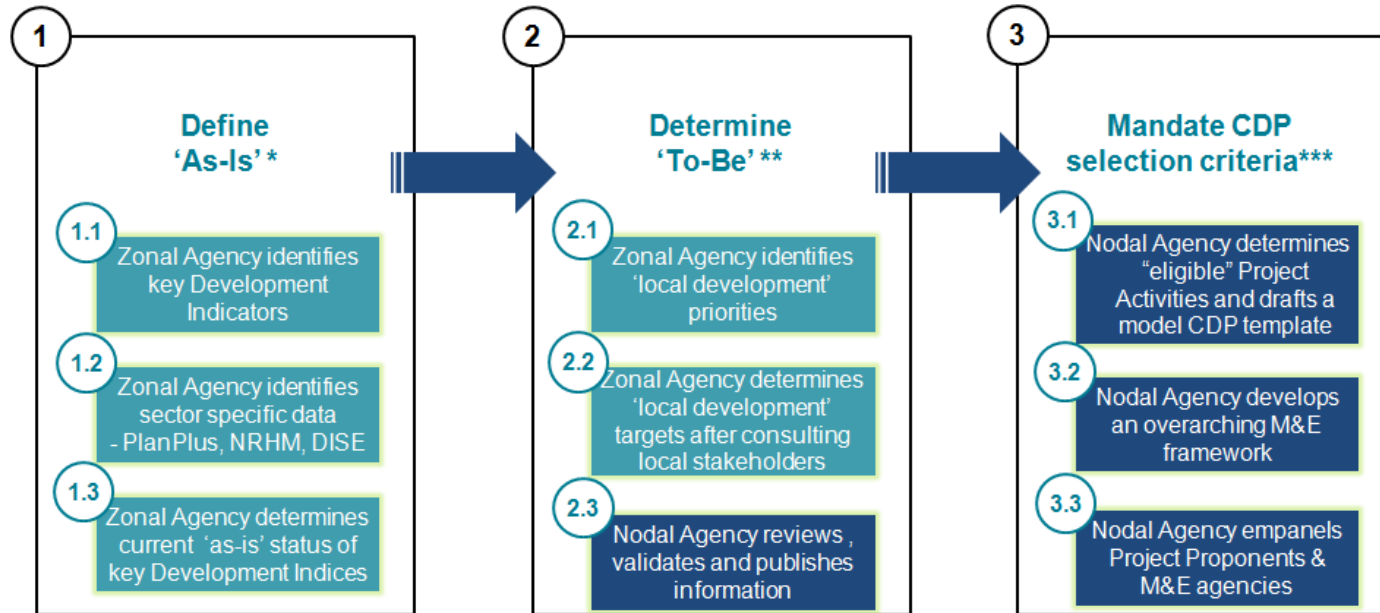
# CDC PHASES : THE PROCESS STEPS



			Administrative Bodies
			Independent Agencies
			Project Proponent

\*CDP: Community Development Plan  
 CDC: Community Development Certificate

# PHASE I: COMMUNITY DEVELOPMENT PLAN (CDP) ENABLEMENT



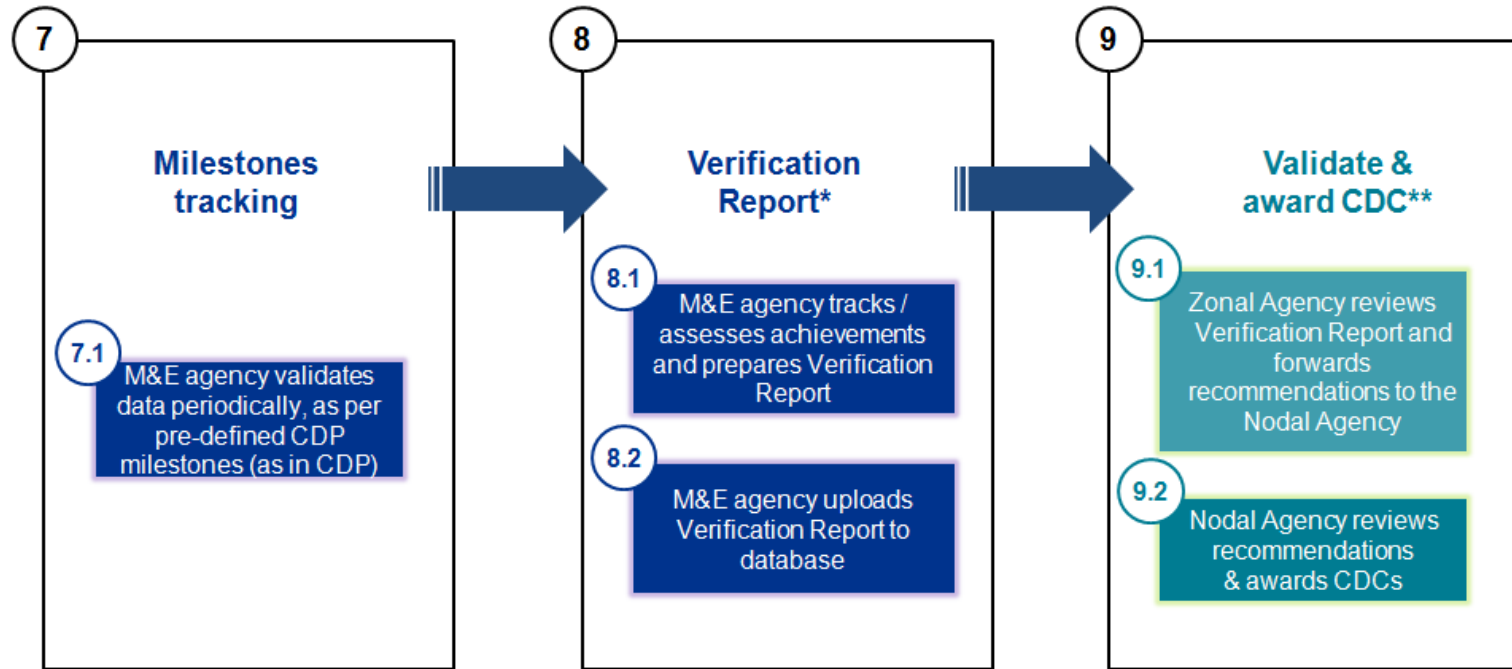
\* The 'As-Is' status is proposed to be reviewed annually by the Zonal and Nodal Agencies.

\*\* Development priorities will be set after consulting local stakeholders like Gram Panchayats etc

\*\*\* The Nodal Agency may take the support of M&E Agencies to develop the M&E Framework. The empanelment is proposed to be reviewed once every 5 years

			Administrative Bodies
			Independent Agencies
			Project Proponent

# PHASE II: CDP DESIGN & DELIVERY

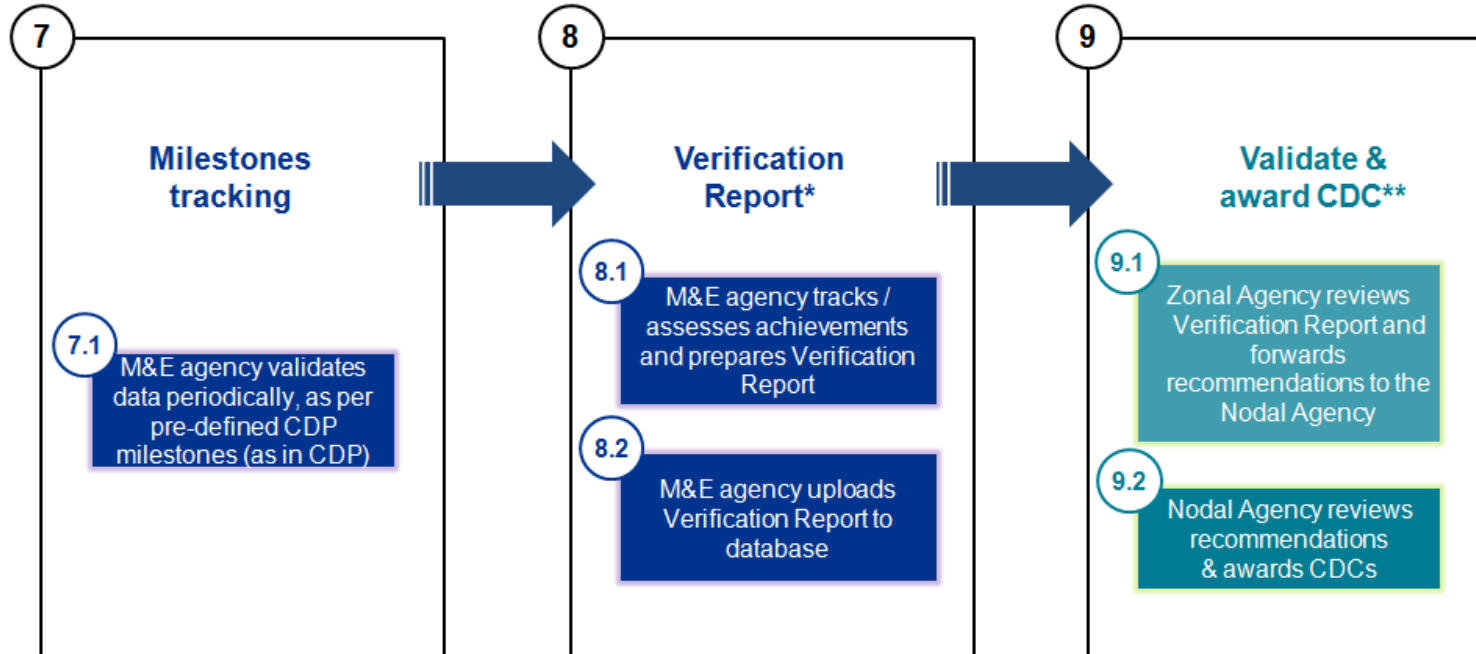


\* The M&E Agency submits its findings electronically to the central database.

\*\* The Zonal Agency accesses the report, reviews it and posts its recommendations for the NA. The Nodal Agency accesses the recommendations and approves CDC award. Upon approval, the CDCs are automatically credited to the proponents Repository account

■	■	■	Administrative Bodies
■	■	■	Independent Agencies
■	■	■	Project Proponent

# PHASE III: CDP EVALUATION & CDC CREATION



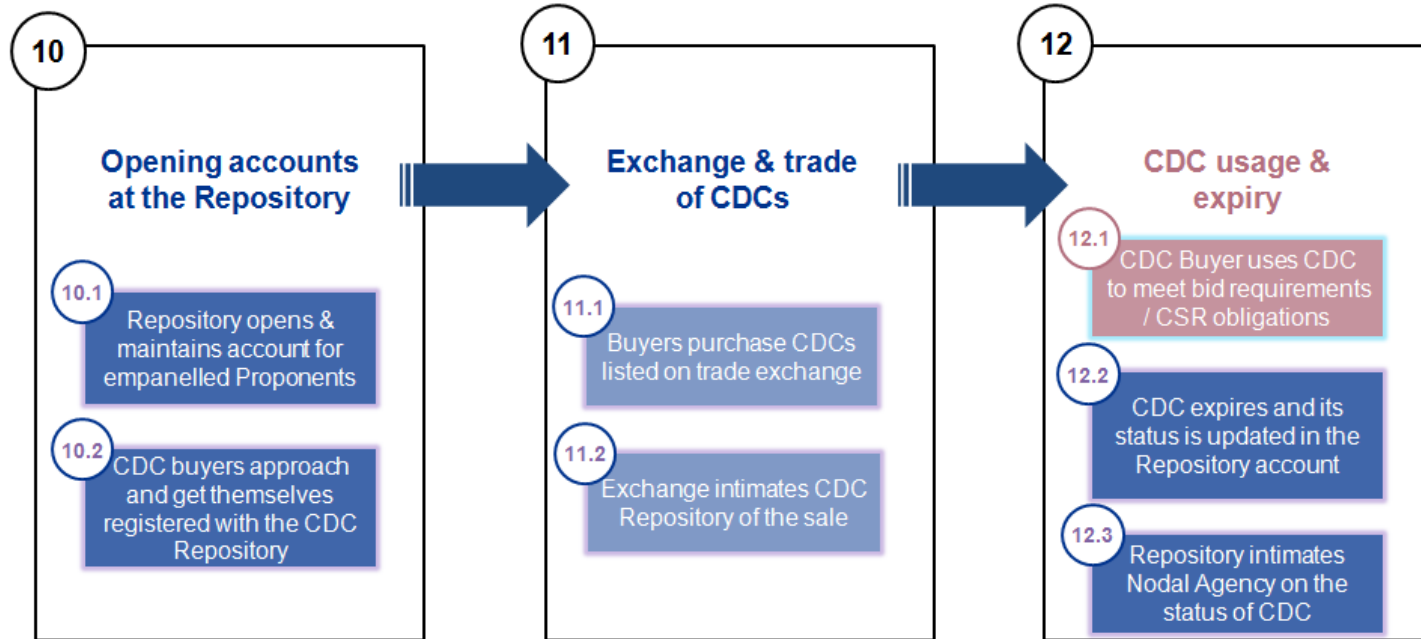
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				Administrative Bodies
				Independent Agencies
				Project Proponent



# PHASE IV: CDC TRADING



			Administrative Bodies
			Independent Agencies
			Proponent / CDC Buyer

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**Social  
Sustainability is  
an Imperative  
not Alternative**

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