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**The Program for Humanitarian Impact Investment
(PHII, «Humanitarian Impact Bond»)
EVPA Investing for Development Member Only Deep Dive**

June 3, 2021

Dr Maximilian Martin, Global Head of Philanthropy, Lombard Odier Group

A changing operating context for humanitarian action...

A snapshot of humanitarian aid delivered globally in 2019

PEOPLE IN NEED **167.6M** | PEOPLE TARGETED **108.8M** | REQUIREMENTS (US\$) **\$28.8B**

 <p>Health</p>	<p>Cholera 900 k people were vaccinated in Beira, Mozambique in 6 days post-Cyclone Idai.</p>	<p>Measles 28.9M children were vaccinated globally against measles.⁴</p>	<p>Ebola 238 k people in the Democratic Republic of the Congo (DRC) were vaccinated against Ebola in 2018 and 2019.⁵</p>	
	<p>Nutrition </p>	<p>Malnutrition 6.9M children (6–59 months), pregnant and lactating women with acute malnutrition were newly admitted for treatment globally.⁶</p>	<p>Malnutrition 500 k children (6–59 months), pregnant and lactating women were admitted to the malnutrition prevention programme in South Sudan.⁷</p>	<p>Malnutrition 1.4M caregivers in Yemen received skilled Infant and Young Child Feeding support.⁷</p>
	<p>Food, shelter and water </p>	<p>Shelter 3.4M refugees provided with shelter in planned settlements and 134,540 tents were delivered in 39 countries.⁸</p>	<p>General food distribution 13.4M people had access to general food distributions in Yemen and Syria.⁹</p>	<p>Safe water 32.2M people provided with access to safe water for drinking, cooking and personal hygiene.</p>
	<p>Protection </p>	<p>Resettlement 81 k resettlement submissions to 29 countries and 55,680 UNHCR-facilitated departures to 27 countries.⁴</p>	<p>Legal status 140 k refugees and migrants from Venezuela benefited from documentation to access legal status in countries in the region.</p>	<p>Child protection 2.6M children and caregivers worldwide accessed mental health and psychosocial support.⁴</p>
<p>Other achievements </p>	<p>Livestock 42.0M livestock reached with vaccination and treatment campaigns.</p>	<p>Education 61% of refugee children worldwide attended primary school.⁴</p>	<p>Education 1.3M Syrian refugee children enrolled in formal general education in refugee-hosting countries in the region.</p>	

Source: United Nations Office for Coordination of Humanitarian Affairs, "Global Humanitarian Overview 2020"

Compliance with international law is declining. Armed conflicts are killing and maiming a record number of children, forcing them to flee their homes

Highly violent conflicts are causing widespread hunger, displacement, death and destruction around the world

There were 825 attacks against health workers and health-care facilities in the first nine months of 2019, resulting in 171 deaths.

Climate change is increasing people's vulnerability to humanitarian crises

In 2020, nearly 168 million people will need humanitarian assistance and protection

The situation will keep getting worse unless climate change and the root causes of conflict are better addressed.

Globally, at the start of 2019 some 821 million people were undernourished, including 113 million who suffered from acute hunger

... reveals limitations to the current financing model

Needs and requirements Results from 2019

As of 13 November 2019

REQUIREMENTS (US\$)

\$29.70 B

FUNDING RECEIVED (US\$)

\$15.96 B

FUNDING COVERAGE

54%

PEOPLE IN NEED

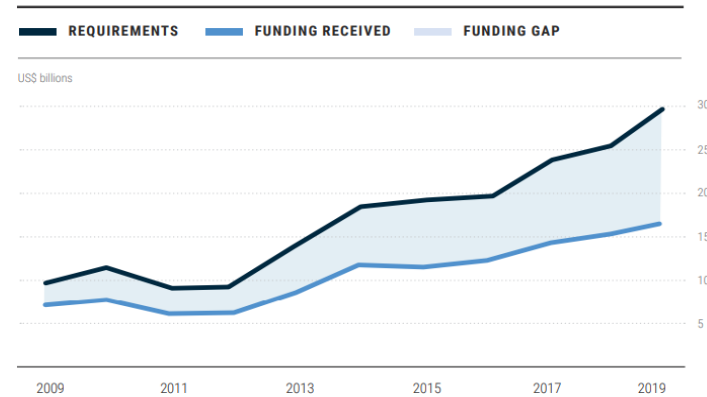
166.5M

PEOPLE TARGETED

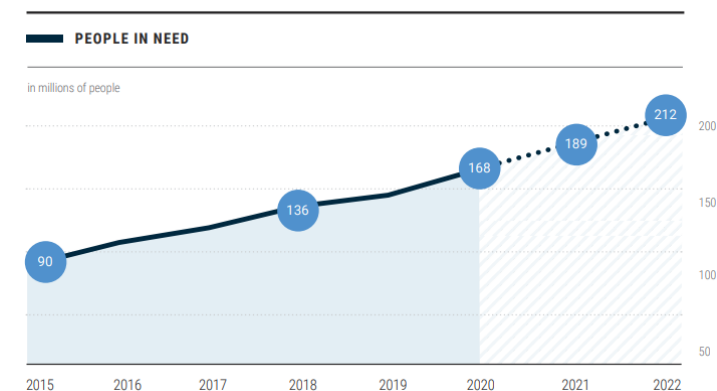
117.4M

INTER-AGENCY APPEAL	APPEAL TYPE	FUNDING REQUIRED	FUNDING RECEIVED	FUNDING COVERAGE	FINANCED	NOT FINANCED
Afghanistan	HRRP	\$611.8 M	\$423.4 M	69.2%	<div style="width:69.2%;"></div>	<div style="width:30.8%;"></div>
Burundi	HRRP	\$106.3 M	\$64.3 M	60.5%	<div style="width:60.5%;"></div>	<div style="width:39.5%;"></div>
Cameroon	HRRP	\$298.9 M	\$123.6 M	41.3%	<div style="width:41.3%;"></div>	<div style="width:58.7%;"></div>
CAR	HRRP	\$430.7 M	\$287.2 M	66.7%	<div style="width:66.7%;"></div>	<div style="width:33.3%;"></div>
Chad	HRRP	\$476.6 M	\$231.9 M	48.6%	<div style="width:48.6%;"></div>	<div style="width:51.4%;"></div>
DRC	HRRP	\$1.65 B	\$680.9 M	41.2%	<div style="width:41.2%;"></div>	<div style="width:58.8%;"></div>
Ethiopia	HRRP	\$771.5 M	\$646.6 M	83.8%	<div style="width:83.8%;"></div>	<div style="width:16.2%;"></div>
Haiti	HRRP	\$126.2 M	\$36.1 M	28.6%	<div style="width:28.6%;"></div>	<div style="width:71.4%;"></div>
Iraq	HRRP	\$701.2 M	\$611.7 M	87.2%	<div style="width:87.2%;"></div>	<div style="width:12.8%;"></div>
Libya	HRRP	\$201.6 M	\$97.8 M	48.5%	<div style="width:48.5%;"></div>	<div style="width:51.5%;"></div>
Mali	HRRP	\$324.0 M	\$160.0 M	49.4%	<div style="width:49.4%;"></div>	<div style="width:50.6%;"></div>
Mozambique	HRRP	\$620.5 M	\$291.6 M	47.0%	<div style="width:47.0%;"></div>	<div style="width:53.0%;"></div>
Myanmar	HRRP	\$214.4 M	\$172.3 M	80.4%	<div style="width:80.4%;"></div>	<div style="width:19.6%;"></div>
Niger	HRRP	\$383.1 M	\$221.7 M	57.9%	<div style="width:57.9%;"></div>	<div style="width:42.1%;"></div>
Nigeria	HRRP	\$847.7 M	\$504.5 M	59.5%	<div style="width:59.5%;"></div>	<div style="width:40.5%;"></div>
oPt	HRRP	\$350.6 M	\$202.6 M	57.8%	<div style="width:57.8%;"></div>	<div style="width:42.2%;"></div>
Somalia	HRRP	\$1.08 B	\$812.3 M	75.4%	<div style="width:75.4%;"></div>	<div style="width:24.6%;"></div>
South Sudan	HRRP	\$1.51 B	\$1.01 B	67.0%	<div style="width:67.0%;"></div>	<div style="width:33.0%;"></div>
Sudan	HRRP	\$1.15 B	\$582.0M	50.6%	<div style="width:50.6%;"></div>	<div style="width:49.4%;"></div>
Syria	HRRP	\$3.29 B	\$1.73 B	52.4%	<div style="width:52.4%;"></div>	<div style="width:47.6%;"></div>
Ukraine	HRRP	\$164.4 M	\$81.1 M	49.3%	<div style="width:49.3%;"></div>	<div style="width:50.7%;"></div>
Venezuela	HRRP	\$222.7 M	\$55.5 M	24.9%	<div style="width:24.9%;"></div>	<div style="width:75.1%;"></div>
Yemen	HRRP	\$4.19 B	\$2.97 B	70.9%	<div style="width:70.9%;"></div>	<div style="width:29.1%;"></div>
Madagascar	IA	\$32.4 M	\$29.2 M	89.9%	<div style="width:89.9%;"></div>	<div style="width:10.1%;"></div>
Zimbabwe	IA	\$467.9 M	\$233.3 M	49.9%	<div style="width:49.9%;"></div>	<div style="width:50.1%;"></div>
Burundi Regional	HRRP	\$261.7 M	\$85.4M	33.0%	<div style="width:33.0%;"></div>	<div style="width:67.0%;"></div>
DRC Regional	HRRP	\$676.8 M	\$146.9 M	22.0%	<div style="width:22.0%;"></div>	<div style="width:78.0%;"></div>
Nigeria Regional	HRRP	-	-	-	<div style="width:0%;"></div>	<div style="width:100%;"></div>
South Sudan Regional	HRRP	\$984.5 M	\$348.2 M	35.0%	<div style="width:35.0%;"></div>	<div style="width:65.0%;"></div>
Syria Regional	HRRP	\$5.53 B	\$2.01 B	36.2%	<div style="width:36.2%;"></div>	<div style="width:63.8%;"></div>
Bangladesh	Other	\$920.5 M	\$613.9 M	66.7%	<div style="width:66.7%;"></div>	<div style="width:33.3%;"></div>
Burkina Faso	Other	\$187.0 M	\$76.6 M	41.0%	<div style="width:41.0%;"></div>	<div style="width:59.0%;"></div>
DPR Korea	Other	\$120.3 M	\$32.0 M	26.6%	<div style="width:26.6%;"></div>	<div style="width:73.4%;"></div>
Iran	Other	\$25.0 M	\$9.6 M	38.5%	<div style="width:38.5%;"></div>	<div style="width:61.5%;"></div>
Venezuela Regional	Other	\$737.6 M	\$382.6 M	51.9%	<div style="width:51.9%;"></div>	<div style="width:48.1%;"></div>

Funding Gap (2009–2019)



Projected humanitarian needs ⁴⁶ (2015–2022)



Source: United Nations Office for Coordination of Humanitarian affairs, "Global Humanitarian Overview 2020"

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Focus on a health: Core challenges in conflict areas

Protection

Primary health care

1. Reproductive health- ante/post-natal care - basic care, breastfeeding and therapeutic feeding activities for malnourished children and mothers
2. Vaccination campaigns in difficult to access areas - immunisation programmes, cold chain, transport, supervision (benefit mostly children under 5 and girls/women at bearing age)

Mental health and psychological support (for those exposed to sexual violence)

Identify those who witness, or experienced violence (these are likely to be rejected by their family, abused, stigmatised and denied an education) so organisation can respond with appropriate services.

Wounded and sick

Medical care - Access to adequate care at hospitals (specific drugs, equipment and medical expertise)

Physical rehabilitation – Artificial limbs, walking aids, wheel chairs, physiotherapy (focus on children, as they require more services because they outgrow prosthetic/orthotic devices)

Construction of health facilities – Ensure accommodation matches international standards

PHII: The world's first "Humanitarian Impact Bond" launched to transform financing of aid in conflict-hit countries



CICR



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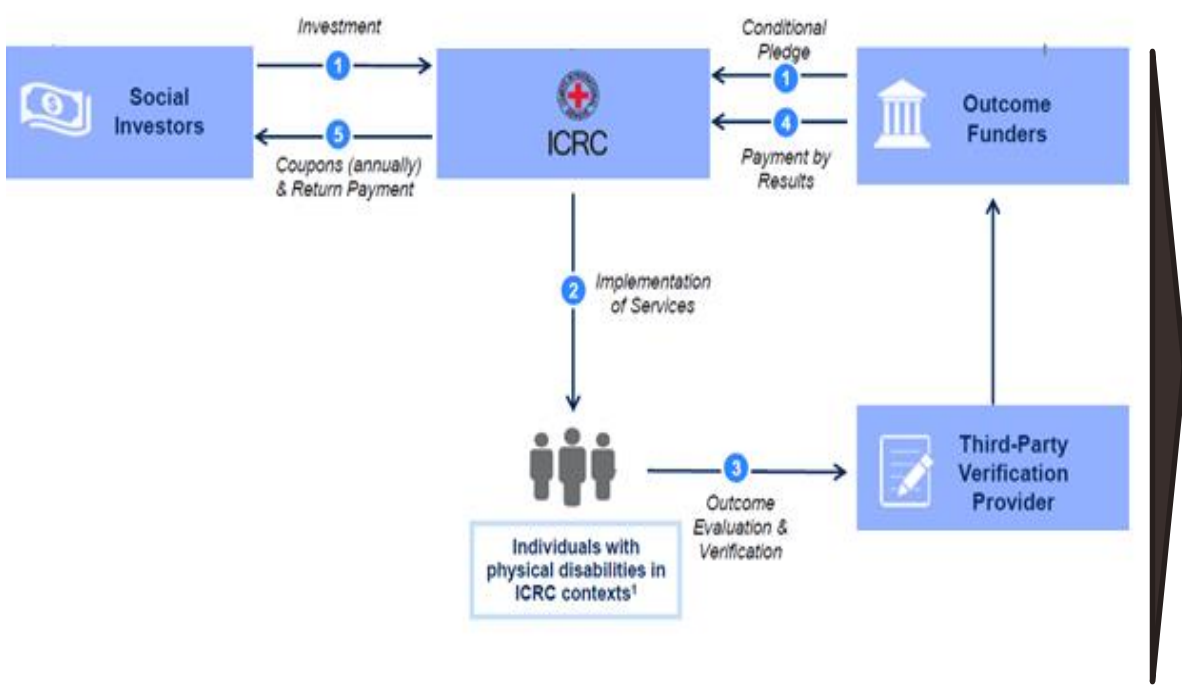
5 · Philanthropy Services · June 2021

Sources: ICRC



CICR

Harnessing our expertise to support ICRC's first innovative financing mechanism and a landmark transaction in the humanitarian space*



- **PHII Investment Agreement** between the ICRC and the Social Investors
- **Payment by results agreements** between outcome funders and the ICRC
- **Verification agreement** between Philanthropy Advisors and the ICRC
- **Escrow agreement** between UBS, the ICRC, and the social investors
- ICRC will play the role of the social provider delivering the social intervention
- **Outcome metric:** Staff Efficiency Ratios (SER) of PRP centres versus SER of baseline centres, in addition to number of beneficiaries reached

1. Conflict-affected countries and other situations of violence.
 *Schematic representation based on publicly available information.
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**CICR**

Key investment features

Programme outline	CHF 18.6 million equivalent at the commencement date, supported by outcome funders' pledges in 5 years, are used to finance an increase in: <ul style="list-style-type: none"> • the capacity of, by construction, and • the efficiency of, by process re-engineering, The delivery of prostheses, orthoses and wheelchairs (mobility devices) and related physiotherapy, to improve the socio-economic circumstances of people with physical disabilities in: <ul style="list-style-type: none"> • Mali • Nigeria, and • the DRC
Outcome funders	Governments of Belgium, Switzerland, Italy, and the UK, as well as the "La Caixa" Banking Foundation
Cornerstone investor	An institutional investor from the insurance industry, New Reinsurance Company
Operation duration	The full 5 years from the commencement date
Investor total return	<ul style="list-style-type: none"> • 2% coupon for the first 4 years, in addition to • A return payment based on the success of the programme operations at the end of year 5, net of coupon already paid
Return payment	The return payment is based on the impact the programme has had on efficiency of the delivery of mobility devices to beneficiaries. Calculated and verified by a verification provides, and compared to an average historical SER of comparable ICRC centres. If the ICRC is more efficient, a return of up to 7% IRR is due on completion of programme operations at the end of 5 years. If the ICRC is less efficient, then investors could lose up to 40% of principal.
Escrow bank	UBS AG Zurich
Verification provider	Philanthropy Advisors

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CICR

Value proposition

- It is the first time an established aid organization in the humanitarian space with a large budget (>CHF 1.5 billion) has looked to **impact investors** to help fund its work on such a scale;
- Government funding often has a time horizon of 1-2 years. It rarely reaches beyond the electoral cycle. Providing **financing certainty** for a longer period of time, in this case five years, not only allows the construction of new centres, but it also allows actors to take a strategic perspective, aiming for much higher expectations of efficiency;
- The project funds three new centres. However, ICRC has been operating 139 rehabilitation projects in 34 countries since 1979, helping almost 330,000 people. The ultimate impact therefore reaches much further. The three centres will be piloting the **next generation of physical rehabilitation service delivery**. Next to the immediate impact on the thousands of beneficiaries served, the PHII is financing the innovation of a core programme, to take it to the next level;
- While this private loan belongs to the family of social impact bonds because it links a social outcome (physical rehabilitation) to a financial return, it is the **scale, effectiveness** and **potential impact** of this project that makes it stand out, in addition to the different financial structure.

- **Channel additional resources** – EUR 22m of five-year funding - to provide much needed humanitarian services to people in conflict affected countries → construction and operation of three centres in Africa;
- **Test and implement new efficiency initiatives** - social impact expected to reach far beyond the three centres;
- **Successful co-operation of different European parties** (governments, humanitarian actors and private investors) to bring about potentially game-changing improvement of services and a new financing model in the humanitarian space, inspired by social impact bonds.


Measuring impact: the Staff Efficiency Ratio (SER)


$$\text{SER} = \frac{\text{Number of mobility devices delivered (adjusted)}}{\text{Number of staff involved in mobility device delivery (adjusted)}}$$

SER calculation methodology

$$\frac{(\# \text{ of Prostheses} \times 1) + (\# \text{ of Orthoses} \times 0.74) + (\# \text{ of Wheelchairs} \times 0.90)}{((\# \text{ of trained P\&Os} \times 1) + (\# \text{ of P\&Os without training} \times 0.75) + (\# \text{ of bench workers} \times 0.50)) \times \text{working hours ratio}}$$

The formula is designed to **make physical rehabilitation centres comparable among each other** and to **prevent perverse incentives**.

 Each type of **mobility device** is given a **different weight** to account for the **different labour time requirements** to manufacture them. As a result, there is no incentive to produce the least time-intensive device to improve the SER at the detriment of the beneficiaries' best interest.

 **Different categories of rehabilitation professionals** are given **different weights** according to their **level of education** (assuming that better trained professionals work more efficiently). This avoids penalizing centres that are more staffed with less qualified supporting staff, i.e., bench workers, because of a structural lack of trained prosthetists and orthotists in the region where a centre operates.

 The working hours ratio **adjusts for differences in centres' working hours** (as if they all worked a 40-hour week). This avoids creating distortions among centres which have quite different modus operandi depending on the country/region.

Learnings from the PHII implementation



- **Focus** - Identify a program of strategic importance to your organization that has the potential to be taken to the next level



- **Participation** - Launch an ambitious internal brainstorming and readiness assessment effort to consider how alternative funding mechanisms could provide the capital needed for a future iteration of that core program.



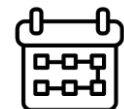
- **Impact measurement** - Develop a set of metrics that can track the program's results at a reasonable cost and establish a base of empirical evidence.



- **Senior engagement** - Make sure senior leaders are willing and able to devote the attention this effort requires to succeed.



- **External support** - Enlist funders close to the organization and make them part of a joint “moonshot” innovation effort.



- **Timeline** - Recognise that innovative financing efforts may take time—and give yourself the time needed.

Source: Martin (2017), “The Next Phase of Innovative Financing”, Stanford Social Innovation Review

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Taking a pipeline view (I): Building capacity is key

		Primary	Developing	Robust	Best in class
<ul style="list-style-type: none"> Honestly assess where your organization stands If there are red or blue stoplight, take measures to switch them to green 	Commitment to impact in humanitarian contexts	No stated mandate to enter humanitarian contexts and generate positive impact	Strategic or operational reference; no reference to humanitarian contexts	Clear commitment to achieving impact, less focus on humanitarian contexts	Clear, stated commitment to create impact in humanitarian contexts
	Commitment to engage private sector and other stakeholders	No mandate to work with the private sector	Mandate to work with the private sector, but no institutional roadmap	Mandate to work with the private sector early in the structuring process, with emerging track record of engagement	Clear, meaningful mandate to engage with the private sector, and a successful track record of engagement , in fulfillment of that mandate
	Prevention, resilience, and recovery vs. response	No formal strategy beyond crisis	Crisis response with leeway to deliver aid in protracted crisis and development setting	Crisis response, appetite to engage in prevention and resilience-building outside of protracted crisis	Mandate to respond to crises accompanied by imperative to help prevent crises and build resilience
	Learning and innovation capabilities, patience	No procedures to deconstruct failed efforts and learn from lessons	Innovation and learning a stated goal, but impatience prevents transactions	Prioritize speed and success over iteration, innovation and learning	Leadership embraces learning process, organization participates in transactions even if structuring phase is prolonged

Source: BCG Good Practices Playbook, "Organizational Readiness and Enabling Private Capital for Innovative Financing in Humanitarian Contexts," 2020

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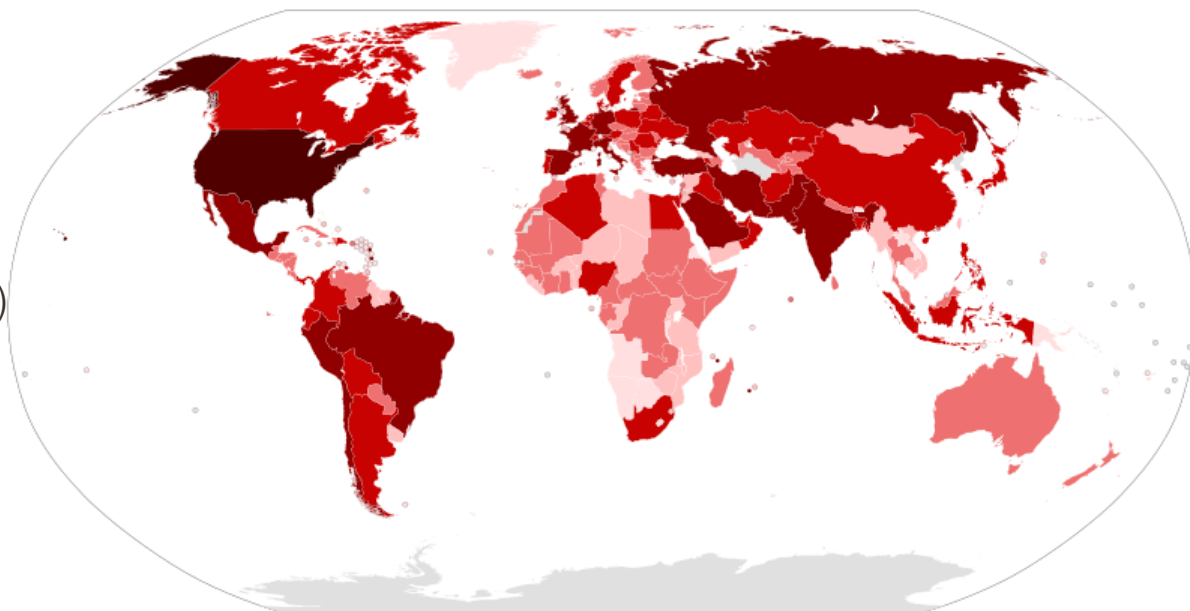
Taking a pipeline view (II): COVID-19 will accelerate the need for innovation and value for money

Drivers:

- Demand shock: greater need for humanitarian aid
- Challenges in IO field operations/delivery
- Additional pressure on already fragile developing countries
- Increased indebtedness of donor governments (pressure on availability of aid)
- Contraction of private fundraising market
- Acceleration of digitalization

Implications:

- Greater emphasis on “value for money”
- Innovation imperative: new formulas to crowd in private sector capital



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