



# IMPACT BONDS AND RESULTS BASED FINANCE

JUNE 2021

### Outcomes-based finance includes:

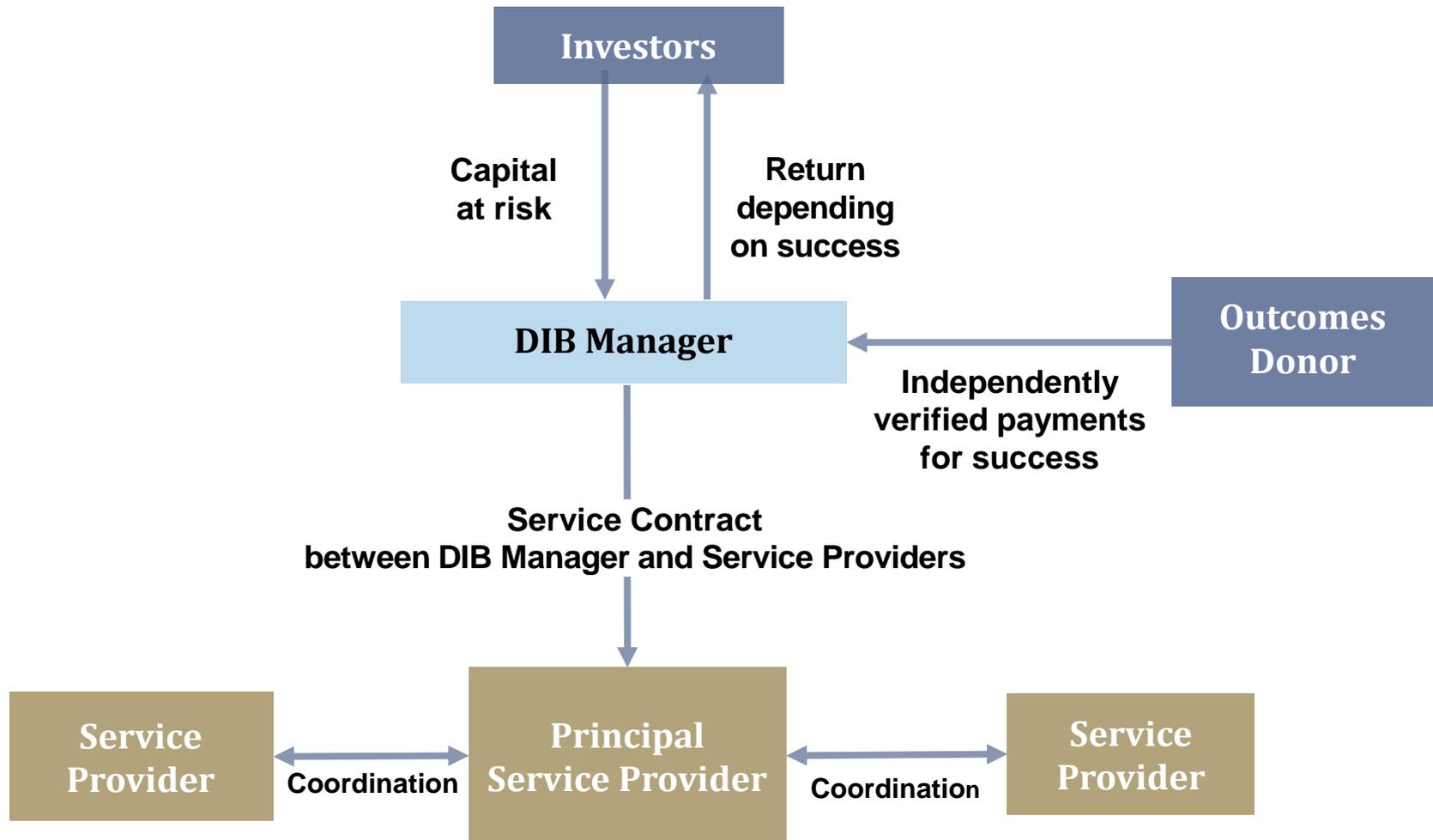
- Traditional **Results-Based Finance** (RBF), where service providers are paid in arrears if and when pre-agreed outputs or outcomes are achieved. In this model the service providers have to source their own working/risk capital needed to bridge the gap until results payments are made
- **Impact Bonds**, which are similar to traditional RBF except that the working/risk capital is provided by external, independent, social investors. In practice, Impact Bonds have also tended to be more rigorously focused on the achievement of independently and rigorously evaluated outcomes (as opposed to outputs). Impact Bonds can be:
  - **Social** (SIBs), where the Outcome Funder is the national Government or other domestic funder
  - **Development** (DIBs), where the Outcome Funder is an external donor
  - **Humanitarian** (HIBs), where the objective is more humanitarian than developmental.
- **Outcomes Funds**, which pool funding to make finance available to a range of outcomes-based projects

## ●■ (I) IMPACT BONDS

### **Impact Bonds are Results-Based Programs financed by Risk Capital.**

- Project financing provided by **investors** who take on the risk of the project failing to deliver agreed results, and therefore losing some or all of their capital
- **An outcomes donor** pays for agreed-upon results after they are achieved
- Financial returns to investors are tied to the **achievement of agreed outcomes**
- Outcomes donors **do not specify implementation modalities**
- **Investors - through an Impact Bond Manager - manage implementation** – investors have proven willing to quickly adapt the interventions they finance based on real time data on what is working well and what is not
- Contract outcomes and outputs are **independently verified**

## ILLUSTRATIVE IMPACT BOND STRUCTURE



## ●■ IMPACT BONDS BENEFITS

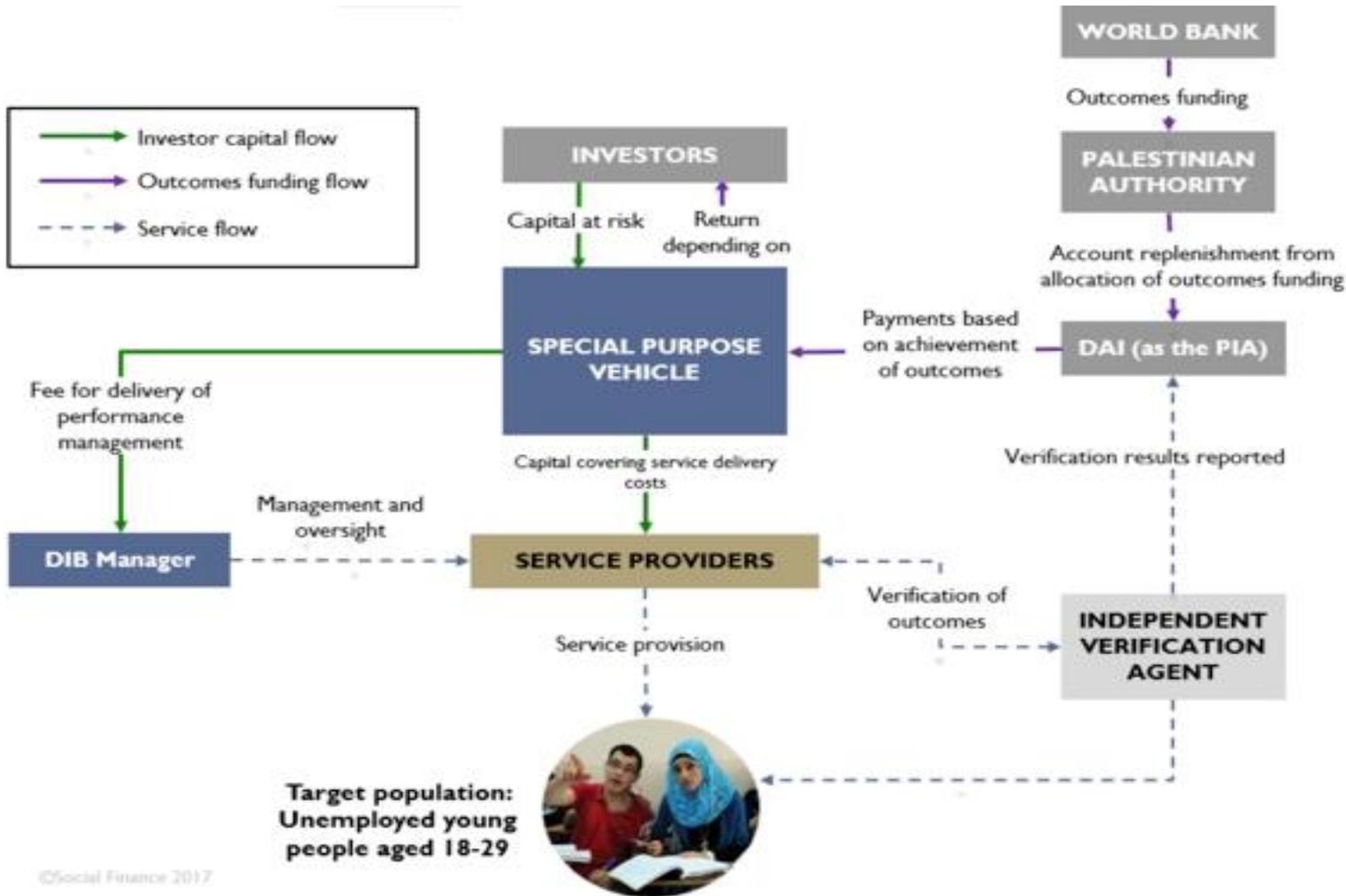
### Impact Bonds address the drawbacks of traditional RBF by:

- Providing risk capital to service providers from large social investors who are **well able to bear the risk of loss.**
- Providing oversight of service providers by Performance Managers hired by investors who are experienced in **outcome-focused adaptive management**
- Freeing outcome funders to embrace **innovation and prudent risk taking** since the risk of financial loss in the case of failure is no longer borne by service providers

## OBJECTIVES AND ROLES OF KEY PARTIES

	<b>Objectives</b>	<b>Role</b>	<b>Examples</b>
<b>Partner Governments</b>	<ul style="list-style-type: none"> <li>Define outcomes and intervention objectives</li> </ul>	<ul style="list-style-type: none"> <li>Define objectives</li> <li>Can be outcomes funder or service provider</li> </ul>	<ul style="list-style-type: none"> <li>Central and Regional Governments</li> </ul>
<b>Outcomes Donor</b>	<ul style="list-style-type: none"> <li>Only pay for success</li> <li>Shift implementation risk to investors</li> </ul>	<ul style="list-style-type: none"> <li>Define precise outcomes</li> <li>Pay for verified outcomes</li> </ul>	<ul style="list-style-type: none"> <li>Donor agencies, CSR funds, recipient governments</li> </ul>
<b>Investors</b>	<ul style="list-style-type: none"> <li>Drive results through innovation and risk</li> <li>Generate a social and financial return</li> </ul>	<ul style="list-style-type: none"> <li>Supply up-front capital</li> <li>Provide implementation framework</li> </ul>	<ul style="list-style-type: none"> <li>Impact investors, high net worths, charitable foundations</li> </ul>
<b>Service Providers</b>	<ul style="list-style-type: none"> <li>Implement services with investor working capital</li> </ul>	<ul style="list-style-type: none"> <li>Deliver services within adaptive model</li> <li>Collect real-time data on service delivery</li> </ul>	<ul style="list-style-type: none"> <li>NGOs, private and public sector providers</li> </ul>
<b>Beneficiaries</b>	<ul style="list-style-type: none"> <li>Impact Bond beneficiaries</li> </ul>	<ul style="list-style-type: none"> <li>Provide feedback to service providers and Impact Bond Manager</li> </ul>	<ul style="list-style-type: none"> <li>People in need of e.g. health services, food security, sustainable livelihoods</li> </ul>

# EXAMPLE: THE PALESTINE SKILLS TRAINING IMPACT BOND



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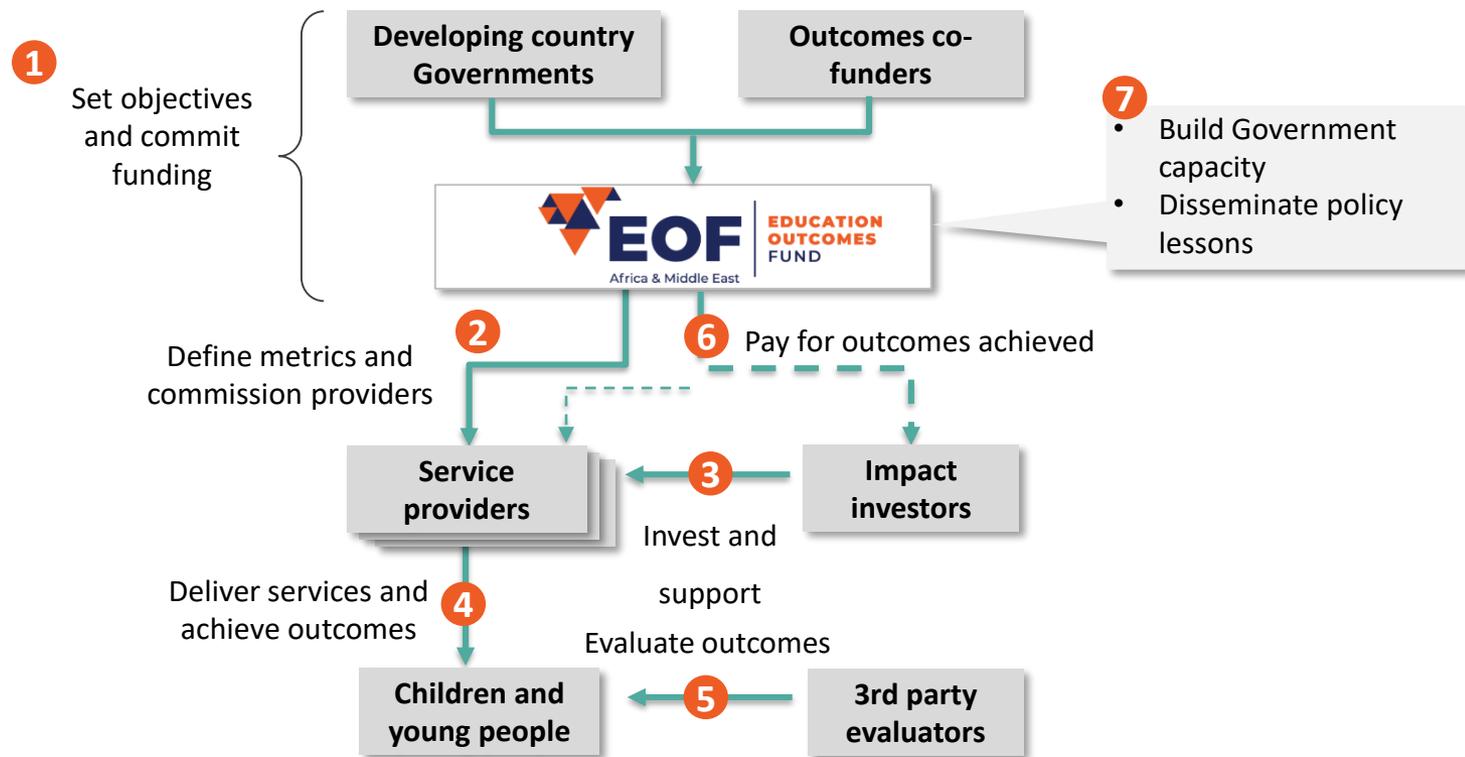
## ●■ (2A) OUTCOMES FUNDS

An Outcomes Fund **pools development finance** to fund payments for successful RBF programmes. This has several benefits:

- **Efficiency and scale:** Multiple funders can support the Fund, allowing multiple transactions by multiple actors over multiple years
- **Competition:** The fact that multiple recipients can bid into the Fund incentivises healthy competition, and ensures the most efficient allocation of resources.
- **Sectoral focus:** Outcomes Funds typically focus on a particular sector/issue area, ensuring that high quality sectoral expertise can be brought into the design and administration of the Funds
- **Adaptation:** Funds target complex problems where adaptive management during implementation is likely to raise the odds of success – where there is room to test and measure different interventions, and to change course as needed.

# ● ■ SAMPLE OUTCOMES FUND: THE EDUCATION OUTCOMES FUND

- The EOF is an innovative approach to improving education quality by paying for measurable outcomes (e.g. literacy and numeracy gains)
- EOF aims to go to scale – to raise and deploy \$1 billion to pay for outcomes that support Government priorities to improve learning



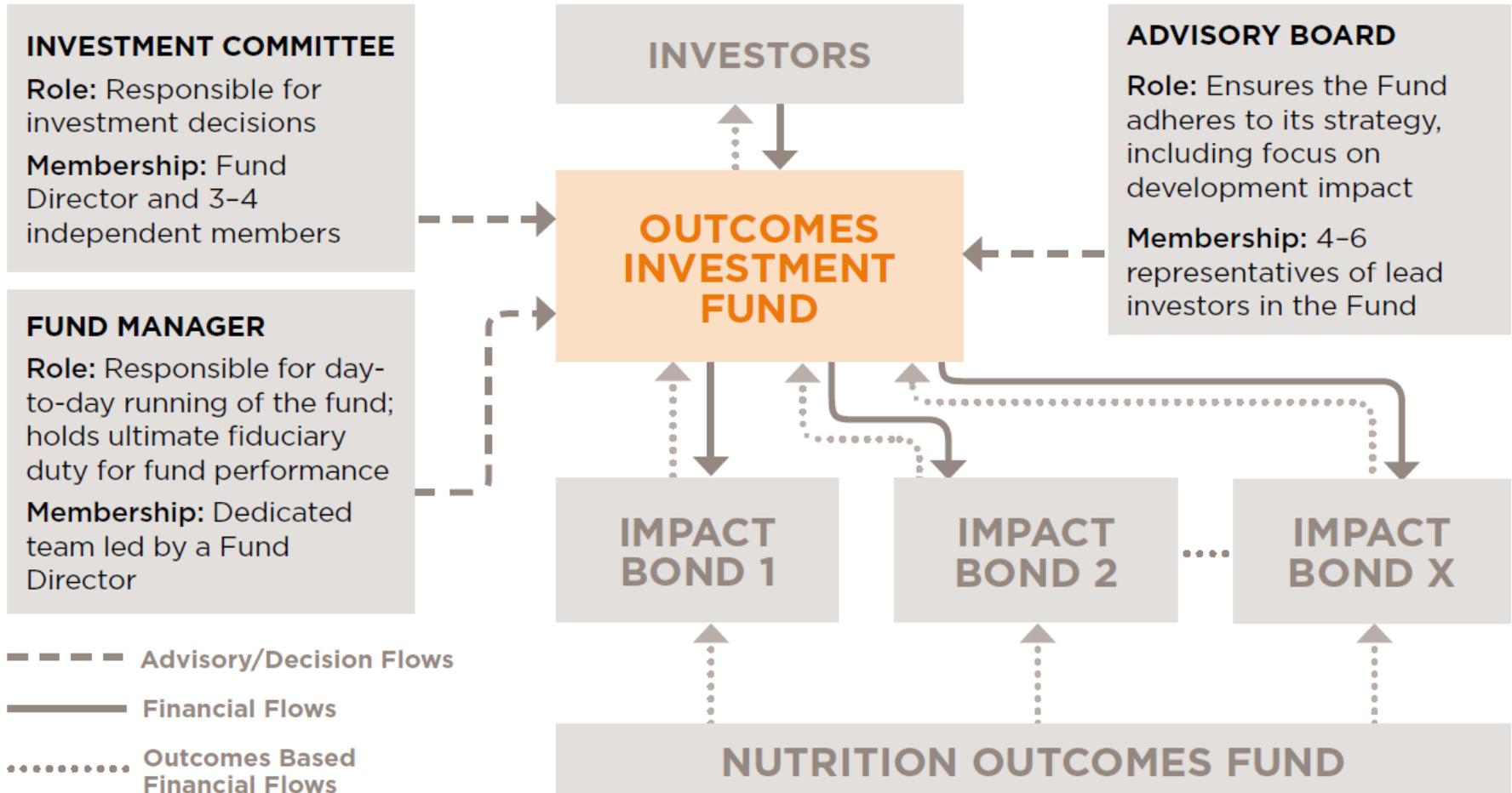
## ●■ (2B) OUTCOMES INVESTMENT FUNDS

Outcomes Investment Funds would mirror image of Outcomes Funds, providing **pooled capital** for Impact Bonds under a single framework

The Investment Funds would:

- Ensure financing only for **high quality, well-vetted** Impact Bonds
- Enable Impact Bonds to be launched and implemented **more quickly** and with less administrative overhead
- Focus on both social and financial returns, supporting outcomes-based contracts driven by a **strong social mission**

# STRUCTURE OF AN OUTCOMES INVESTMENT FUND





THANK YOU!