

IMPACT BONDS: AN OVERVIEW

● THE CASE FOR OUTCOMES-BASED APPROACHES IN AID

By strengthening the link between funding and impact, outcomes-based approaches improve accountability and enable better social and development outcomes.

- **Outcomes-based approaches focus solely on results**
 - Funding is tied directly to success: if outcomes are not achieved, no payments are made
- **These approaches can maximize aid efficacy**
 - **Driving rigorous measurement and adaptation:** evidence of what works & where allows aid programs quickly to adapt to on-the-ground circumstances
 - **Stimulating co-investment:** other funds leveraged by demonstrating a clear link between funding and results, clear VFM and a clear sharing of risk
 - **Unlocking innovation:** providers are incentivized to innovate so that local needs are met



'Kangaroo Mother Care' in Cameroon



Sleeping Sickness intervention in Uganda

● IMPACT BONDS: AN EVOLUTION IN OUTCOMES-BASED FINANCE



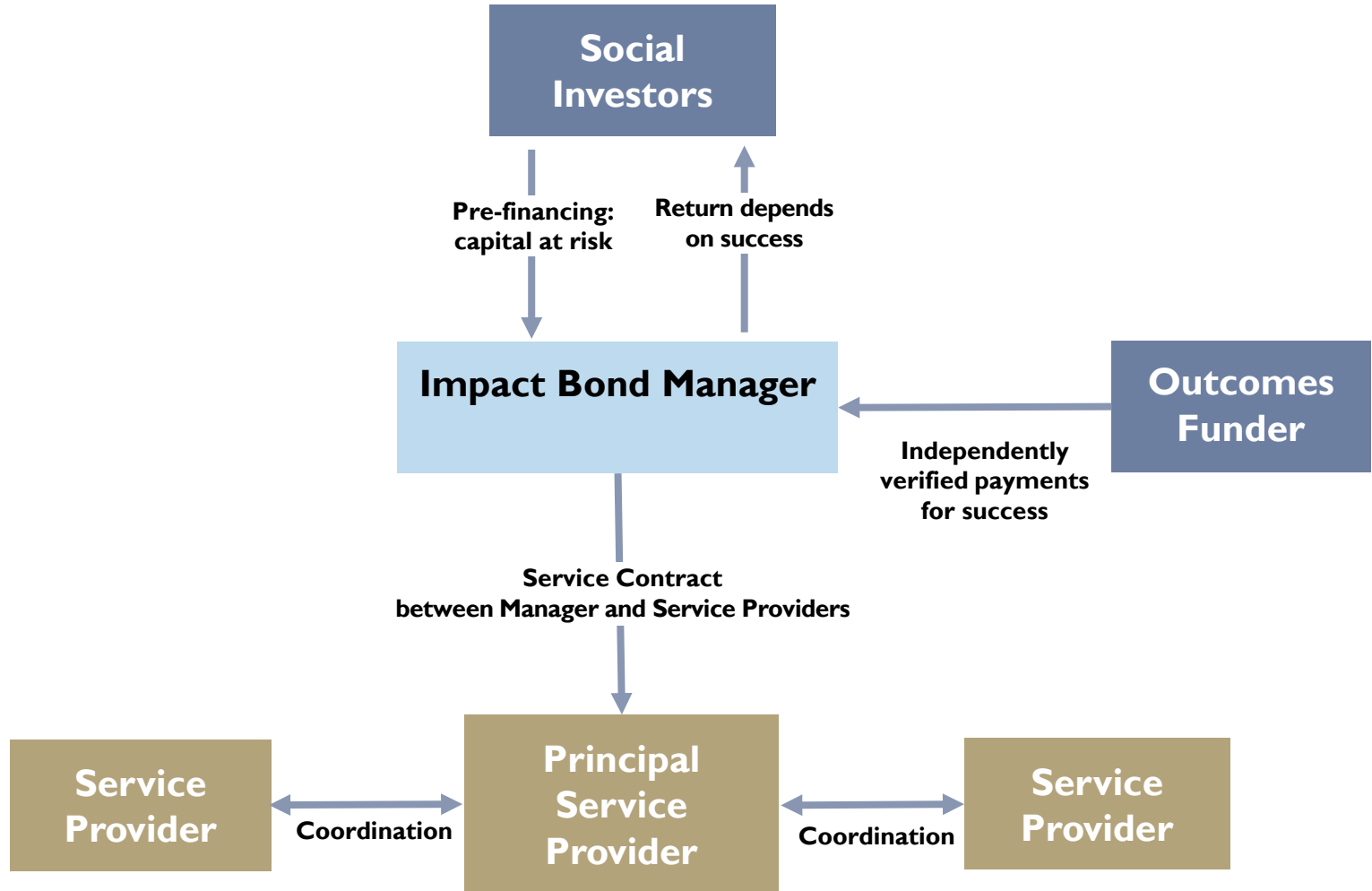
- **“Impact Bonds” are not bonds!**

- They are not a fixed-income borrowing instrument, with a steady stream of repayments
- Think of them as a better way of “doing aid”

**An impact bonds is a results-based contract in which project financing is provided upfront by private risk capital (a ‘social investor’)....
....With an ‘outcome funder’ (donor or government) only paying for success**

- **Nor a form of additional ‘macro’ private sector financing**
- **Nor a means for Government to save money**

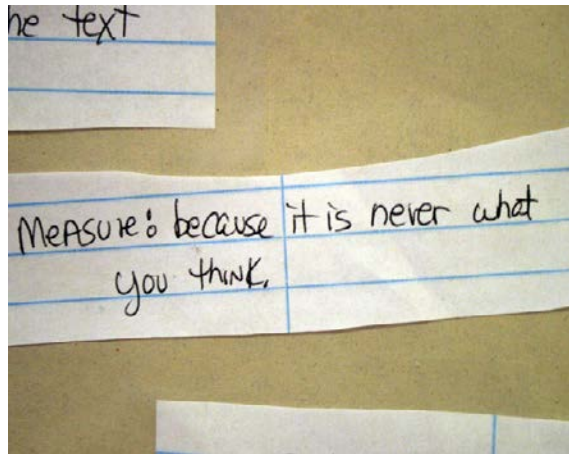
● IMPACT BOND MECHANICS



● ■ HOW AN IMPACT BOND ADDS VALUE



ADAPTABILITY



RIGOUR & EVIDENCE



MISALIGNED INCENTIVES



INVESTING TO SAVE



INNOVATION

● ■ BUT AN IMPACT BOND IS NOT A SILVER BULLET

An impact bonds works well for...

Complex problems – but a clear outcome

Innovative (but previously demonstrated*) interventions needed

Optimal sequencing of inputs unknown (or unknowable) ex-ante

Need for external risk capital

New collaborations or partnerships are needed



...when these conditions are met...

Outcomes measurable

Reliable and timely data flow (including baseline data)

Outcomes attributable to inputs

On-the-ground delivery & iteration capacity

Availability of social investment

Government + donor priority

...but works less well when ...

- **Outcomes are almost certain from paying for the activity (e.g. rural roads)**
- **Limited opportunity for innovation – such as where there are strong statutory obligations**
- **Difficult to attribute impact to the intervention rather than external factors**

* An impact bond works particularly well when robust evidence for a specific intervention exists from prior interventions but where it has not yet been tried in a particular location/context.

PRINCIPLES FOR A SUCCESSFUL DEVELOPMENT IMPACT BOND

	PRINCIPLES	RATIONALE
Added value	Need for outcomes focus	<ul style="list-style-type: none"> • Demonstrated need for focus on outcomes in target sector/geography; creates incentives for rigorous measure of outcomes and space for adaptive implementation
	Promising interventions	<ul style="list-style-type: none"> • Focus on expanding intervention with some evidence-base, but also innovation to justify risk transfer
	Need for external working capital	<ul style="list-style-type: none"> • Service providers do not have affordable working capital finance or cannot bear implementation risk
Feasibility	Good potential for attribution of outcomes	<ul style="list-style-type: none"> • Target population and outcome metrics can be clearly defined and agreed • Reliable data for benchmark and outcome metrics can be collected and attributes to interventions
	Priority for donors and governments	<ul style="list-style-type: none"> • Donor agency and partner governments have interest in payment-by-results approaches and regard target outcomes as high priority
	Viable proposition	<ul style="list-style-type: none"> • Project is of sufficient scale to justify Impact Bond structure • Reasonable level of existing evidence around effective intervention approaches, and balanced risk transfer