



IMPACT BONDS & OUTCOMES-BASED FINANCING

A SHORT INTRODUCTION

June 7, 2017

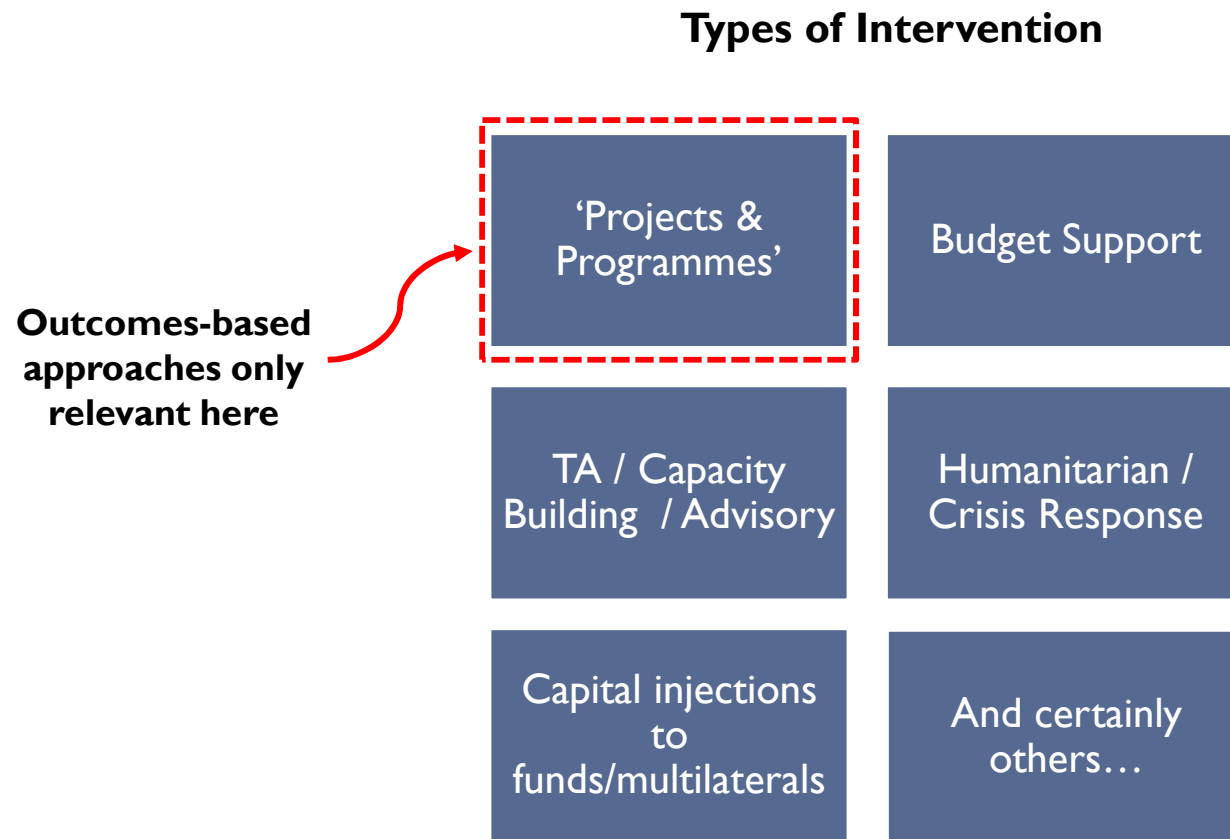
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● ■ FIRST THINGS FIRST



- **“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**
 - There may be long-term savings (“Invest to Save”)
 - But not designed as a cost-cutting instrument

●■ HIGH-LEVEL VIEW OF 'TRADITIONAL' AID INSTRUMENTS



▶ **INPUT-BASED PROJECTS ARE USUALLY CHARACTERISED BY A WEAK LINK BETWEEN FUNDING & IMPACT**

● 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



'Kangeroo Mother Care' in Cameroon



Sleeping Sickness intervention in Uganda

●■ PUT ANOTHER WAY...

Original Plan



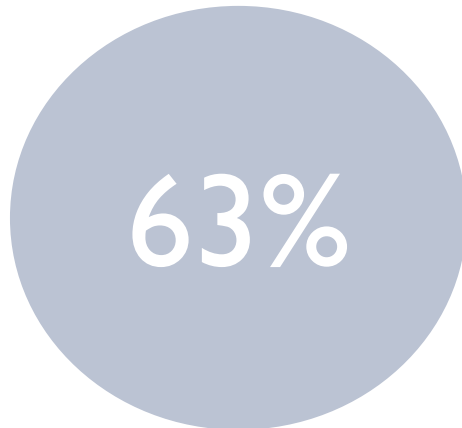
Actual Experience



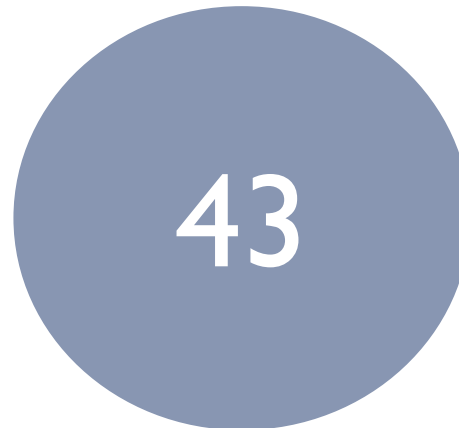
“100% of the activities will spend 100% of the money to deliver 100% of the results 100% on time....”

●■ UK CASE STUDY: PRISONERS FREQUENTLY RE-OFFEND, CREATING SOCIAL AND FINANCIAL COSTS

PRISONER
RECONVICTION RATE
WITHIN 1 YEAR



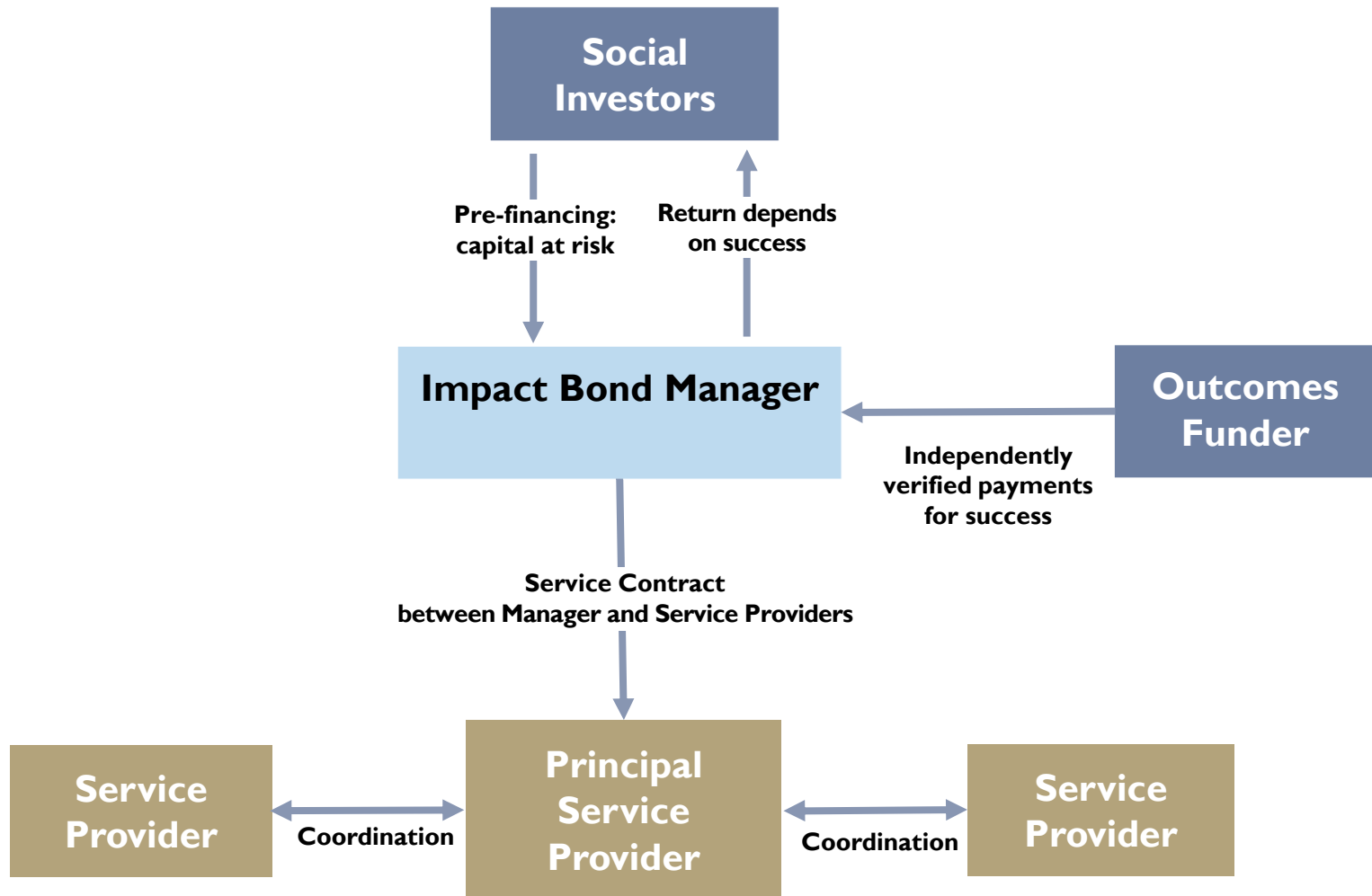
AVERAGE NUMBER OF
PREVIOUS OFFENCES



AVERAGE NUMBER OF
PREVIOUS JAIL TERMS



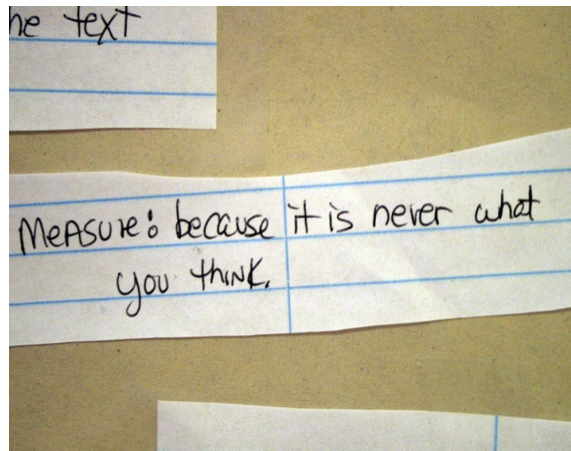
● IMPACT BOND MECHANICS



● ■ HOW AN IMPACT BOND ADDS VALUE



ADAPTABILITY



RIGOR & EVIDENCE



MISALIGNED INCENTIVES



CLIENT-CENTRED PARTNERSHIPS



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**

...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**

...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**

* 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



DETAILED SF
CASE STUDIES

● CASE STUDY 1: NEONATAL HEALTH IN CAMEROON – KANGAROO MOTHER CARE DEVELOPMENT IMPACT BOND

Objective	<ul style="list-style-type: none"> • The KMC DIB aims to achieve significant and measureable improvements in key health outcomes for low birth weight (LBW) and preterm infants, by funding the scale-up of quality KMC practices in target hospitals across Cameroon. • The ultimate aim is for quality KMC to be integrated into Cameroon’s healthcare system to ensure long-term sustainability, and be a model for scaling quality KMC in other countries.
Target geography	Cameroon: Littoral, Centre, North, Adamaoua and potentially Southwest regions.
Size and duration	Size: USD4.6 – 6M; Duration: 4-5 years
Intervention	<p>KMC is a cost-effective intervention for saving LBW infant lives, by administering continuous skin-to-skin contact and exclusive breastfeeding. The DIB will expand investment in infrastructure, equipment, and the train-the-trainer model required for quality KMC delivery. The service provider will provide training to select facilities, Centres of Excellence, which in turn will provide KMC training to other facilities.</p>
Outputs and outcomes	Metrics under consideration include effective delivery of quality KMC programme; infant weight gain; exclusive breastfeeding; improved health outcomes for LBW and preterm infants.
Measurement	Considering a pre-post approach to compare the pre-intervention baseline metrics with the post intervention endline metrics at each hospital.
Impact Bond value-add	The impact bond structure is used because it provides strong incentives to test and optimise an innovative train-the-trainer KMC scaling model. It also leverages outcomes funder commitments to bring in private investors’ risk capital and scrutiny.

● CASE STUDY 2: IMPROVING EARLY CHILDHOOD DEVELOPMENT IN SOUTH AFRICA

Objective	The Western Cape Department of Social Development (DSD) and Department of Health (DoH) have worked alongside the Bertha Centre for Social Innovation & Entrepreneurship and Social Finance UK to develop an Impact Bond Innovation Fund to improve early childhood development outcomes in the Western Cape.
Target geography	Western Cape
Size and duration	Size: R50M (50% from government and 50% from a private outcomes funder); Duration: 3 years
Intervention	The DSD and DoH will be procure 3 organisations to deliver community-based services under a Social Impact Bond arrangement. DSD-procured organisations will deliver non-centre based care to Pre-Grade R children to ensure children are meeting developmental milestones. The DoH-funded organisation will deliver community-based care aimed at ensuring that pregnant women and children in the first 1,000 days of life (from conception to 2 years) are healthy, nutritionally sound and developmentally on track.
Outputs and outcomes	Outcomes include: recruitment, nationally-normed developmental targets, weight for age, immunisations, exclusive breastfeeding, height for age, and PMTCT
Measurement	Directly observed clinical data and statistically significant survey results
Impact Bond value-add	Government interested in approach because it mobilises additional support to service providers to achieve outcomes and implement systems for adaptive management and provides them the opportunity to build an understanding of the trust costs of delivering outcomes.



CASE STUDY 3: RAJASTHAN MATERNAL AND NEWBORN HEALTH IMPACT BOND

Objective	The objective of the DIB is to support private sector facilities to reach NABH / FOGSI ¹ certification, a new accreditation standard that allows explicit recognition of quality maternal care. The longer term objective is to support the development of sustainable PPP models by creating a critical mass of facilities that government can contract out to.
Target geography	Rajasthan, India.
Size and duration	Size: up to USD9M ² ; Duration: 3 years.
Intervention	The programme will be delivered by two established NGOS, Hindustan Latex Family Planning Promotion Trust (HLFPPT) and Population Services International (PSI), working across urban and rural settings. The focus is on capacity building local health service providers through a holistic programme that combines regular medical training, coaching and peer-to-peer mentoring.
Outputs and outcomes	The payment trigger will be application for NABH / FOGSI certification, with a proposed intermediate payment for facilities that demonstrate progression towards this goal; health outcomes will also be measured.
Measurement	Independent audit.
Impact Bond value-add	The Impact Bond model allows flexibility for each service provider to adopt and adapt their approaches. The high efficiency dividend expected from the mechanism will be used to compare the modality with other private facility quality improvement initiatives in other states of India.

(1) NABH = National Accreditation Board for Hospitals & Healthcare Providers; FOGSI = Federation of Obstetric and Gynaecological Societies of India (2) Total gross outcomes pot; estimated to be \$8m net of DIB costs

● CASE STUDY 4: SCALING TUBERCULOSIS CASE DETECTION IN BANGLADESH

Objective	At present, an estimated 47% of TB cases go undetected every year in Bangladesh, and the Global Fund (TGF) wishes to explore with the Ministry of Health and Family Welfare the opportunities to design and launch a Social Impact Bond to scale tuberculosis case detection nationwide. Ultimately, TGF hopes to use the risk transferral element to attract more domestic resources to tuberculosis control.
Target geography	Bangladesh - nationwide
Size and duration	Size: \$30-40 million; Duration: 5 years
Intervention	The NGO Iccdr,b is seeking to scale its TB screening centre model to serve 6 metropolitan areas and 58 districts nationwide. Iccdr,b has already built a strong referral network in Dhaka for its 3 existing screening centres comprising private medical providers and will seek to duplicate this outreach/referral model in its new geographies. A SIB approach will provide Iccdr,b with the necessary working capital to establish these centres, the ability to test and refine outreach/referral strategies and the capability of tracking beneficiaries through the cascade of care.
Outputs and outcomes	Metrics to be considered could include number of cases detected, number of cases treated, treatment adherence rate, contact investigation rate, and/or treatment success rate
Measurement	TBD
Impact Bond value-add	The outcomes based approach introduces a strong incentive to improve outreach and awareness raising efforts among population and the tracking of presumptive TB cases from initial referral to treatment completion and rapid contact investigation.

● CASE STUDY 5: YOUTH TRAINING AND JOBS IN WEST BANK & GAZA

- There are significant mismatches between the training programmes provided in the West Bank and the needs of the private sector.
- The real-time data collection and adaptive management inherent in a Development Impact Bond model could help bridge these gaps.

HIGH-LEVEL IMPACT BOND DESIGN	
Objective	<ul style="list-style-type: none"> • Increased training and better matching of young people with employment opportunities in the West Bank and Gaza
Target geography	<ul style="list-style-type: none"> • West Bank and Gaza
Intervention	<ul style="list-style-type: none"> • Flexible skills training at both technical and university levels linked to new investments and upcoming employer demand • Soft skills training tailored to specific skill requirements identified by employers
Outputs and outcomes	<ul style="list-style-type: none"> • Training and skills development outputs linked to employer needs • Improved employment opportunities for young people • Improved work retention for young people
Measurement	<ul style="list-style-type: none"> • DIB will collect real-time data on job placements and retention, with independent verification to trigger output and outcome payments
Impact Bond value-add	<ul style="list-style-type: none"> • Strong link between private sector employers and design and roll-out of training programmes • Training and skills better aligned to upcoming employer demand • Improved tracking of training, work placement and retention • Key learnings mainstreamed into government programmes

●■ CASE STUDY 6: SLEEPING SICKNESS IN UGANDA

A Development Impact Bond targeting East African Sleeping Sickness would deliver significant animal and human health benefits at scale across poor, rural parts of Uganda.

OVERVIEW	
Objective	<ul style="list-style-type: none"> Reduce incidence of East African Sleeping Sickness by treating cattle – the main parasite reservoir
Size	<ul style="list-style-type: none"> An 8 year, ~\$50m DIB covering 44 at-risk districts in Uganda Minimum 4m cattle to be treated across the affected area
Socioeconomic benefits	<ul style="list-style-type: none"> Estimated livestock benefits of \$15 per cattle per year free of tryps and \$7.50 per cattle protected by insecticide per year Human health benefits estimated at 19 DALYs /case and \$200 healthcare costs per case \$150m animal health benefits and \$90m human health benefits estimated over 8 years
Intervention	<ul style="list-style-type: none"> Mass cattle injection programme - delivery of 5.5 million cattle treatments over 3 years Establishment of prevalence and vector control strategy over 8 years
Outcomes	<ul style="list-style-type: none"> Successful mass treatment of cattle in years 1-3 Reduction in the parasite prevalence from baseline in years 4, 6 and 8
Data systems	<ul style="list-style-type: none"> Uses tailored app and database to track cattle treatment progress in real time
Sustainability	<ul style="list-style-type: none"> Promotion of ongoing insecticide spraying by farmers to maintain parasite prevalence reduction achieved by the mass treatment programme and sustained socioeconomic benefits
Impact Bond value-add	<ul style="list-style-type: none"> Improves the effectiveness of delivery through real-time data collection and analysis Investment structure encourages strong management and programme adaptation Provides greater accountability and transparency around impact of donor funding

1. How can your projects benefit from the impact bonds instrument?

2. What challenges you see in adopting impact bonds at the WB?