

DEVELOPMENT IMPACT BONDS

INTRODUCTION

ABOUT SOCIAL FINANCE

- Social Finance is a pioneering non-profit organisation that designed and launched the first Social Impact Bond (SIB), in which risk capital is used to provide the working capital for outcomes-based contracts
- We have launched 11 SIBs in the United Kingdom and are helping to develop Impact Bonds in a range of countries in Africa and the Middle East
- We established a Working Group with the Centre for Global Development in 2012 to explore the potential of Development Impact Bonds (DIBs) that apply the Impact Bond model in developing countries



● THE CASE FOR OUTCOMES-BASED APPROACHES

By strengthening the link between funding and impact, outcomes-based approaches can build a market to enable better social and development outcomes.

- **Outcomes-based approaches focus solely on results**
- **Funding is tied directly to success** – if outcomes aren't achieved, payments aren't made
- These approaches can build a market of effective private sector service provision by:
 - **Unlocking private sector innovation:** providers that adapt interventions to meet local needs successfully are rewarded
 - **Stimulating investment:** the clear link between funding and results creates a rational investment market enabling working capital loans, risk-sharing through equity and Impact Bonds
 - **Requiring rigorous measurement and adaptation:** evidence of what works, where will accumulate rapidly strengthening market confidence

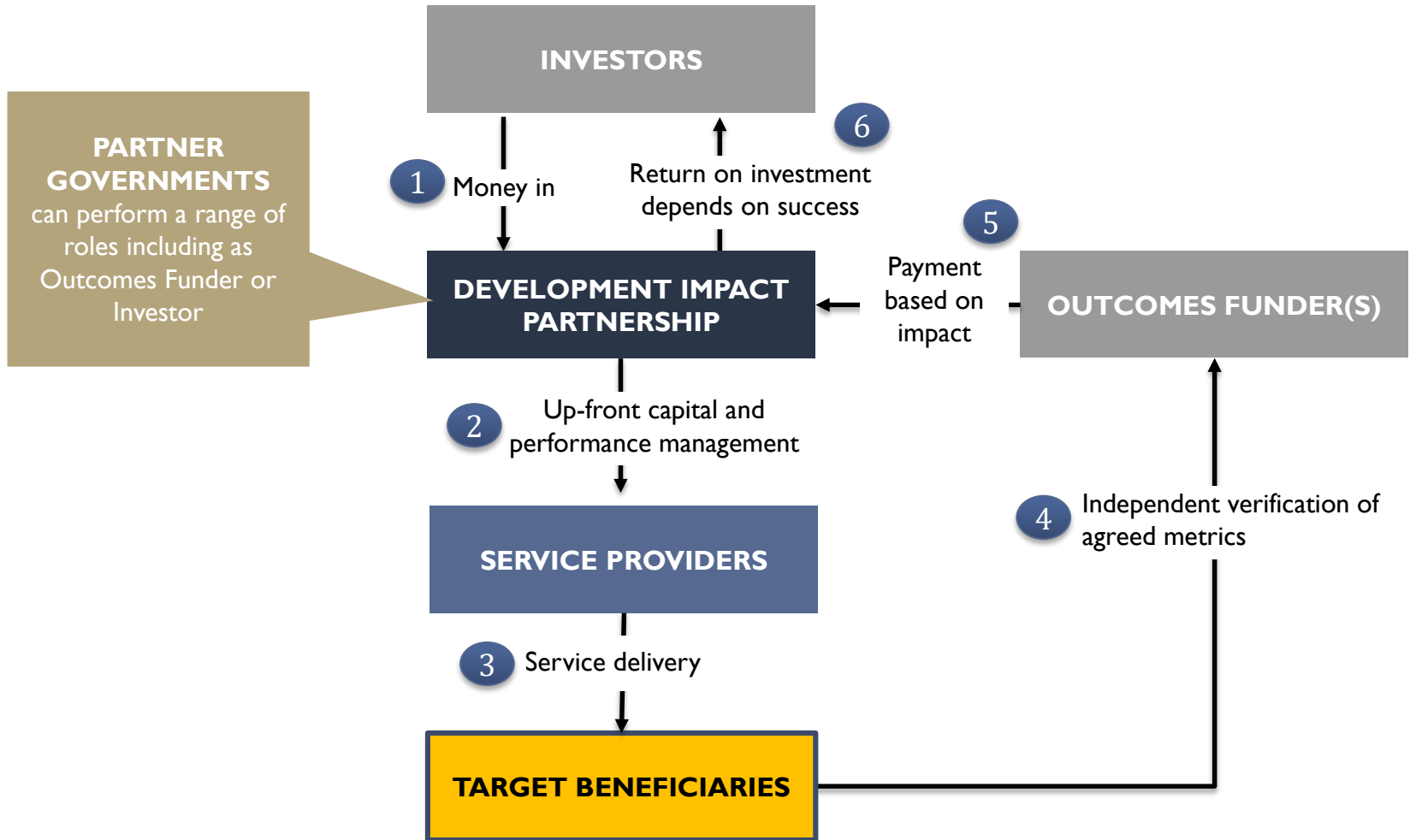


● ■ KEY CHARACTERISTICS OF IMPACT BONDS

Impact Bonds are outcomes-based programmes financed by risk capital.

- Project financing is 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**

●■ DIB PAYMENTS DEPEND ON ACHIEVING AGREED OUTCOMES



TYPICALLY AN “IMPACT BOND MANAGER” WILL BE CONTRACTED TO OVERSEE THE PROGRAMME

WHAT DEVELOPMENT IMPACT BONDS OFFER

Impact Bonds can improve the efficiency and effectiveness of development programmes.

**Incentives for
adaptive
implementation**

- Linking investor returns to outcomes creates a strong incentive for adaptive implementation of services

**Enhances
transparency and
accountability**

- Investors are only compensated when contract outcomes and outputs have been independently verified

**Donor only pays
for success**

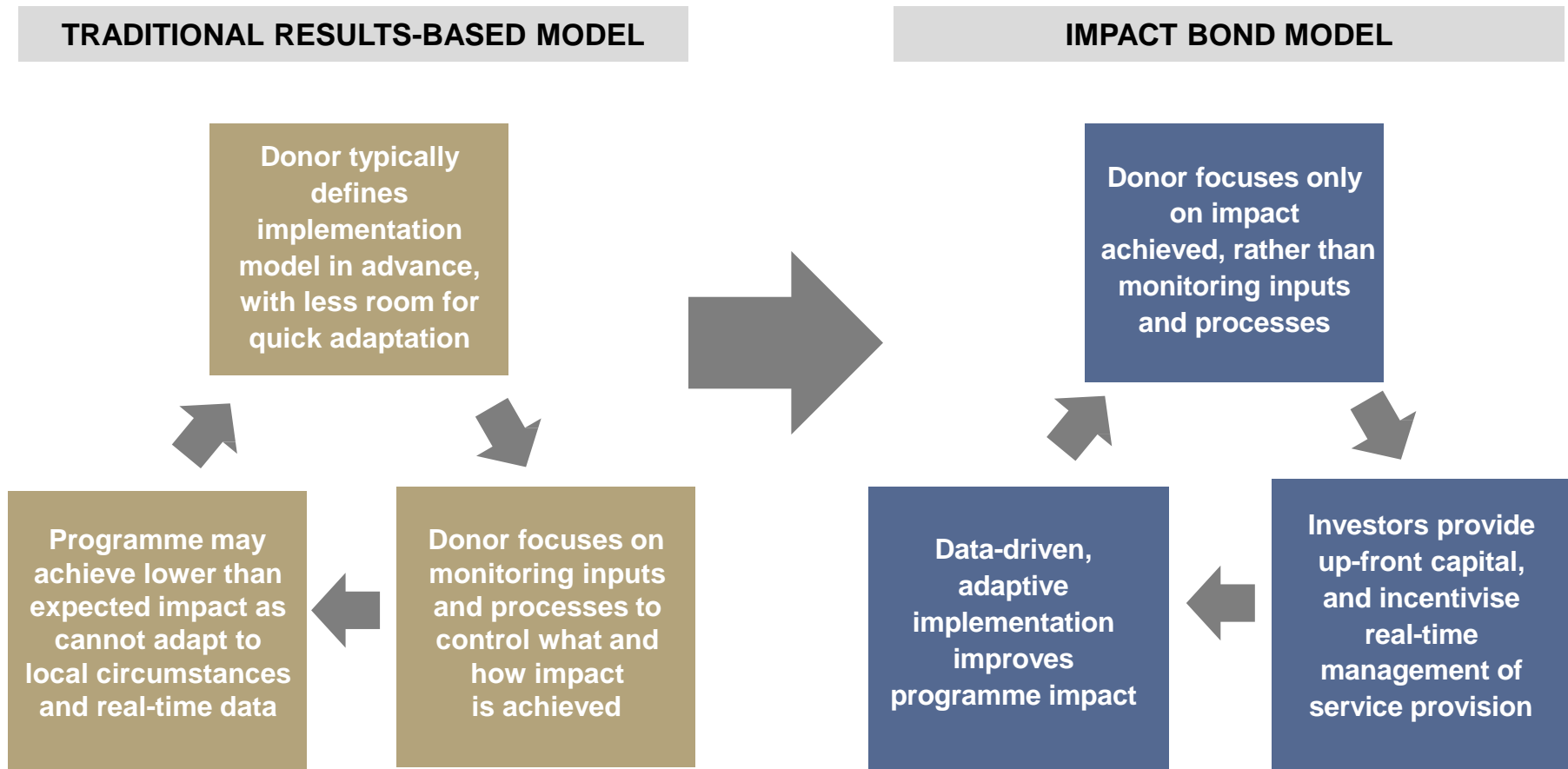
- As with other results-based programmes, donors only pay for delivery of agreed results

**Provide access to
upfront funding**

- Upfront funding provides working capital to service providers

DEVELOPMENT IMPACT BONDS FOCUS ON IMPROVING IMPACT

Impact bonds create incentives to achieve impact by linking funding to results and providing the implementation flexibility required.



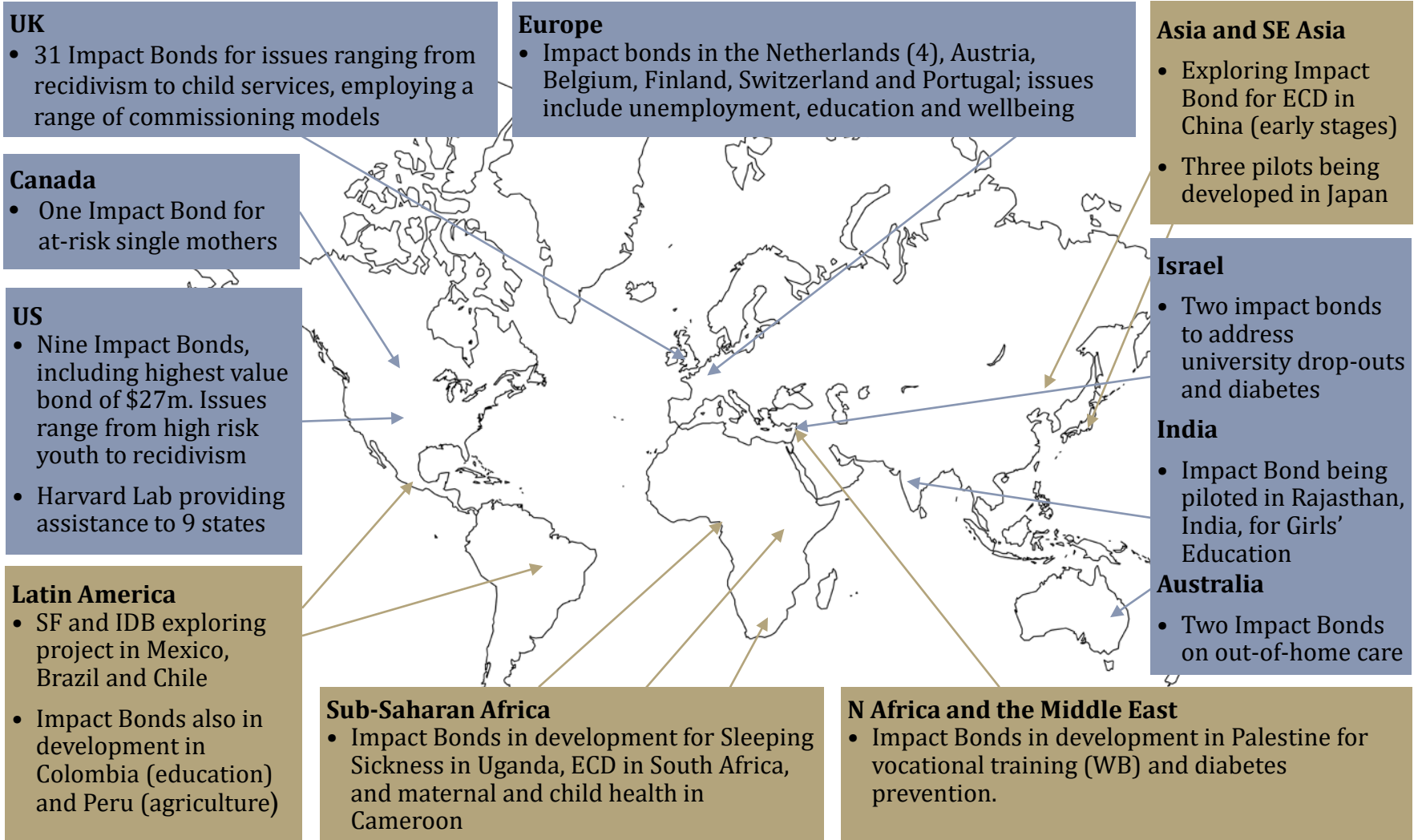
IMPACT BONDS HAVE ADVANTAGES OVER OTHER MODELS

CONSIDERATION	OUTPUT BASED AID	CASH ON DELIVERY	CONDITIONAL CASH TRANSFER	IMPACT BOND
Significant focus on outcomes		√	√	√
Incentivises the funding of innovative interventions				√
Inbuilt mechanism for performance management				√
Clear source of upfront funding				√
Flexibility in role of partner government	√			√
Independent verification of results	√	√		√

▶ IMPACT BONDS PROVIDE BOTH THE UPFRONT FINANCING AND IMPLEMENTATION FLEXIBILITY REQUIRED TO IMPROVE SERVICE DELIVERY AND SERVICE IMPACT

A RAPIDLY GROWING MARKET

55 Impact Bonds raising \$180m+ have been launched, with at least as many in development.

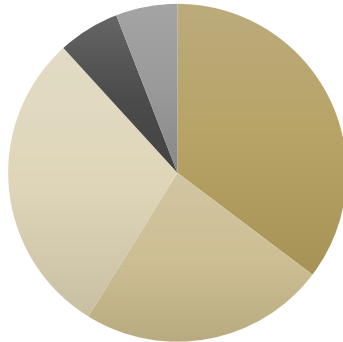




WORK TO DATE – CLIENTS AND FOCUS

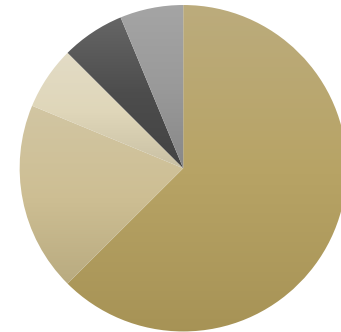
Since our international development team was established in early 2012, we have delivered work for foundations and donor agencies across a broad sweep of sectors and geographies.

Projects by sector



- Health
- Education and early years
- Livihoods
- Environment and conservation
- Workforce development

Projects by region



- SSA
- South and Central Asia
- MENA
- South-East Asia
- Global

PARTNERS

CLIENTS



TREND TOWARDS HEALTH, EDUCATION / EMPLOYMENT AND PRIVATE SECTOR DEVELOPMENT AS KEY AREAS OF DEMAND

PRINCIPLES FOR A SUCCESSFUL 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
	Service providers require working capital	<ul style="list-style-type: none"> • Service providers do not have sufficient upfront funding to pay for interventions or cannot bear the 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 partner governments	<ul style="list-style-type: none"> • Potential donor agency and partner governments have interest in payment-by-results approaches and regard target outcomes as high priority
	Viable investment proposition	<ul style="list-style-type: none"> • Issue area/geography a priority for potential investors • Reasonable level of existing evidence around effective intervention approaches, and balanced risk transfer

