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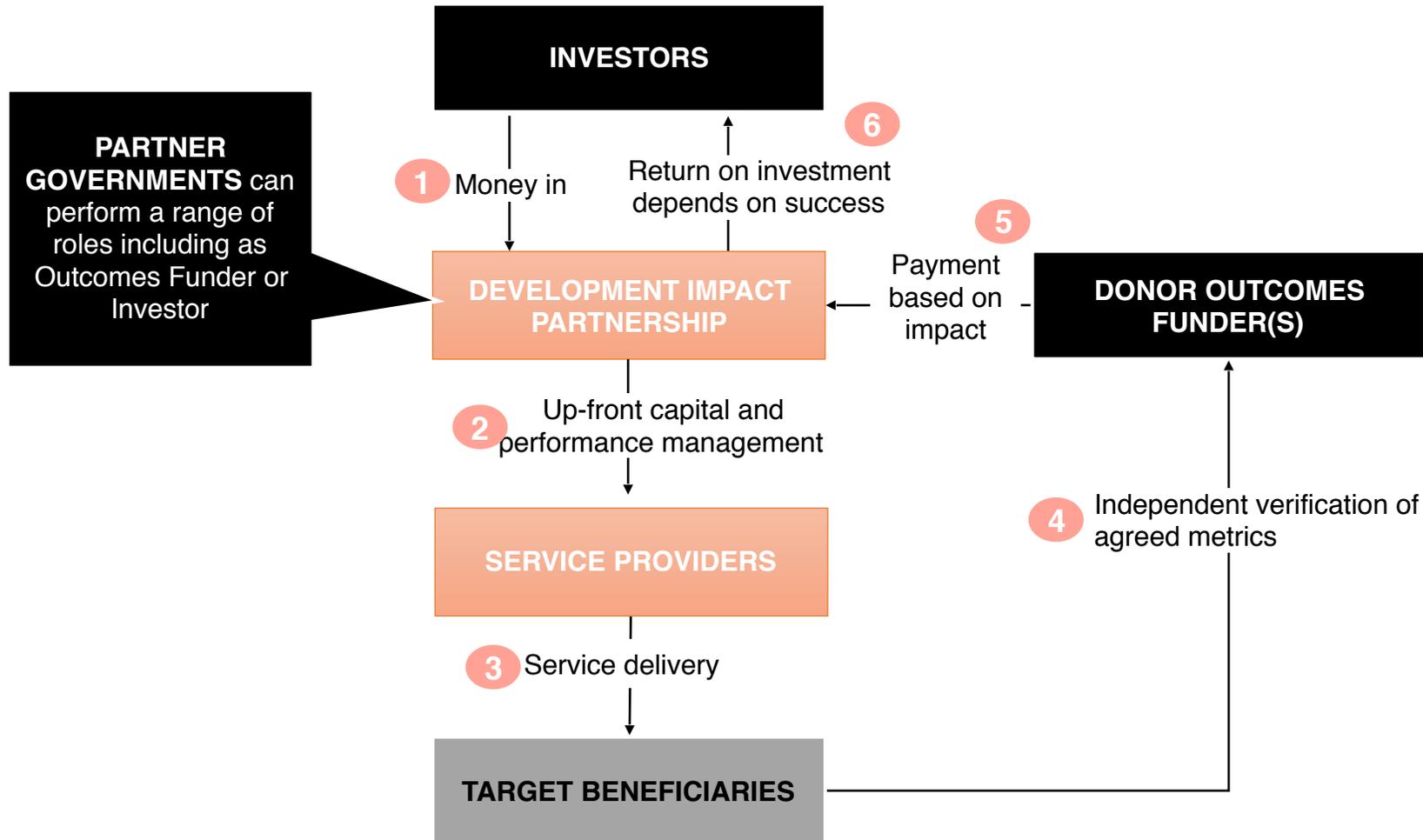
**Development Committee for Enterprise
Development (DCED)**

June 8, 2018



**Impact Bonds
Working Group**

Impact Bonds draw private finance into development projects, and build new partnerships between donors, investors and service providers to drive impact



Donors and DFIs are gaining first experiences and learnings with impact bonds

Piloting Impact Bonds to generate first insights...

- ICRC Humanitarian Impact Bond (DFID, BTC, AICS, SDC)
- Village Enterprise IB (USAID, DFID)
- Colombia Workforce Development SIB (SECO, IDB)

...And test new partnerships

- “Private sector can bring more than finance”
- “Experience of working with investors can be transformational”

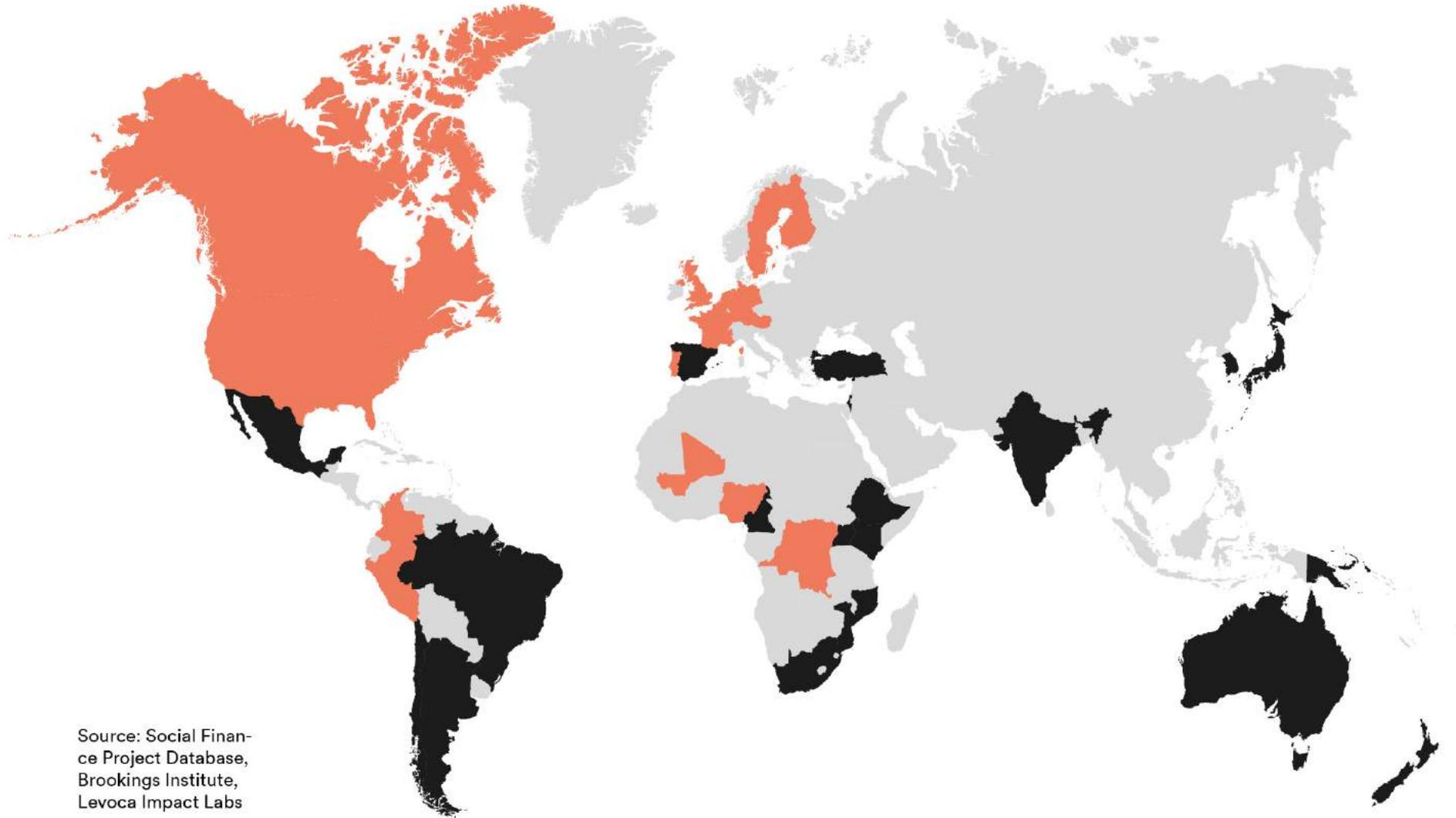
...Yet challenges abound:

- Development costs still high
- Still small scale compared to size of problems in developing countries
- Value-for-money case needs to be made through more and larger transactions

How can we do this cost-effectively and at a larger scale?

- Providers/investors feedback that clear signal needed
- Efficiencies possible with growing scale
- Value in collaboration to shape emerging market

...And with a growing number of learnings in developing countries:



“How do we make impact bonds and related pay-for-success instruments a cost-effective and scalable proposition to help deliver the SDGs?”

- Countries with impact bonds launched
- Countries with impact bonds under development

Source: Social Finance Project Database, Brookings Institute, Levoca Impact Labs

In January 2018, donors called for the creation of a working group to move a multi-donor strategy forward with concrete areas for collaboration

- Encouraging a market of service providers, investors and intermediaries structuring innovative projects
- Coordinating to build scale to match investor appetite
- Developing an infrastructure for better commissioning of outcomes, such as Outcomes Funds
- Sharing learning and driving a reduction in complexity and transaction costs



Impact Bonds Conference

18 January 2018, Zürich

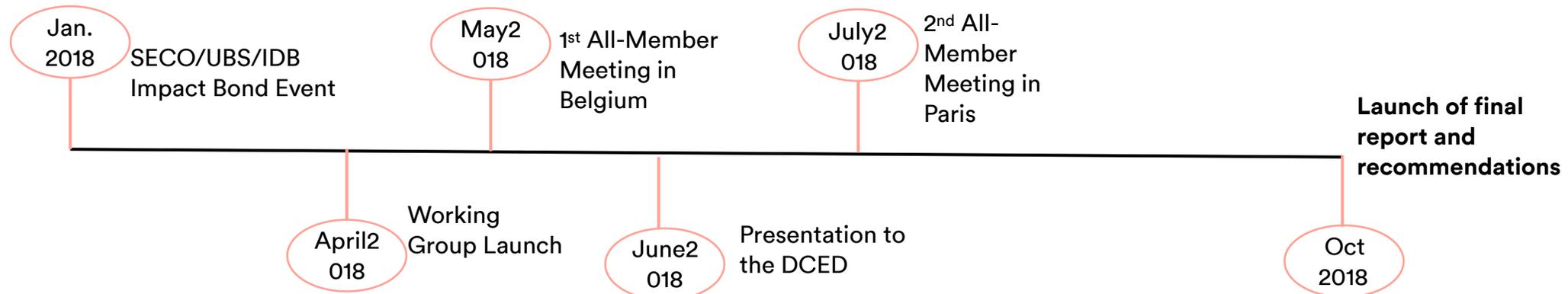


UBS Optimus Foundation

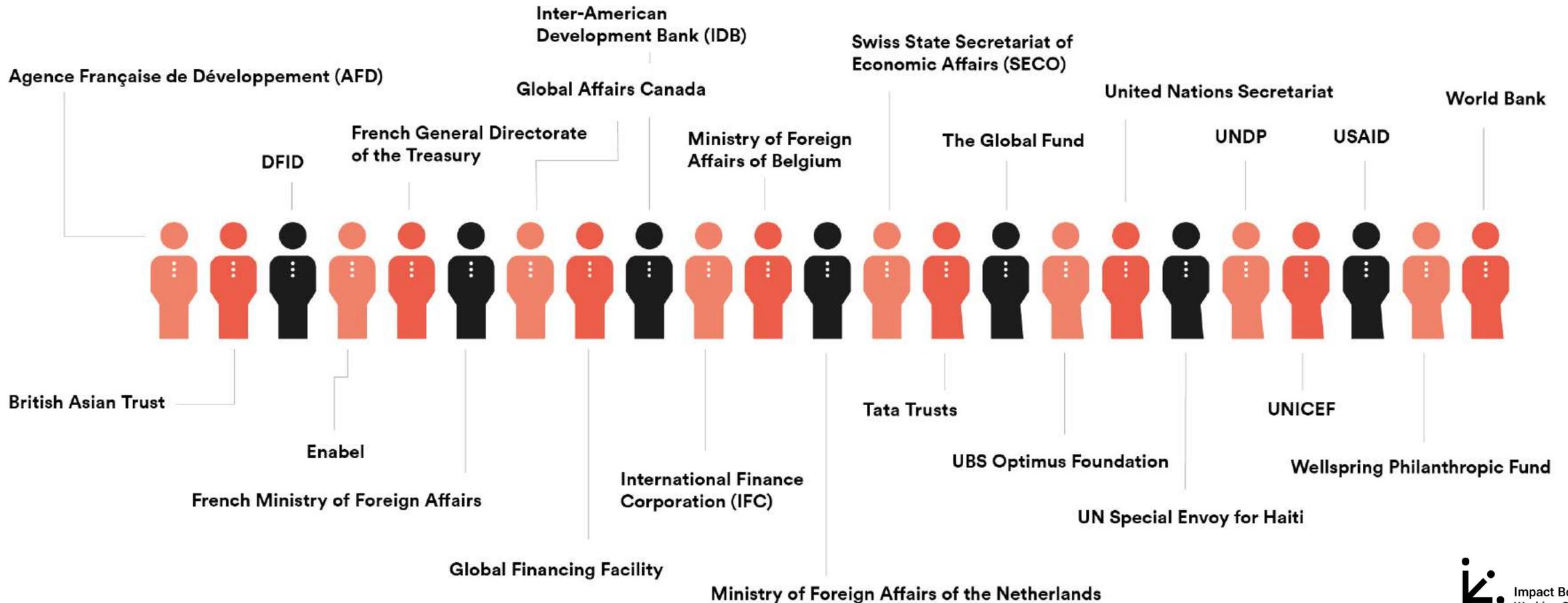


Objectives of the Working Group

The objective of the Impact Bonds Working Group is to design strategies that will help members use impact bonds and related pay-for-success instruments effectively at scale and contribute to launching quality development projects.



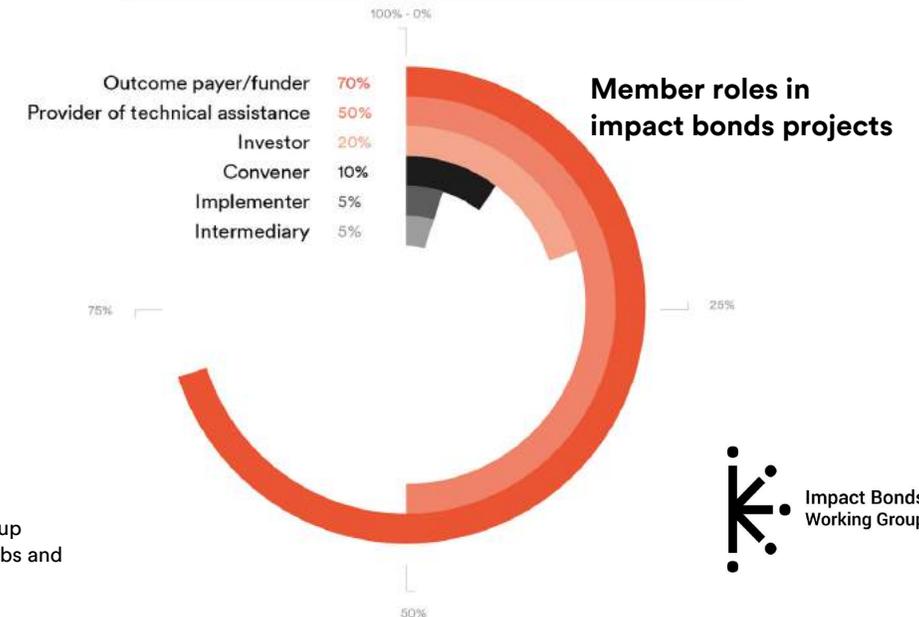
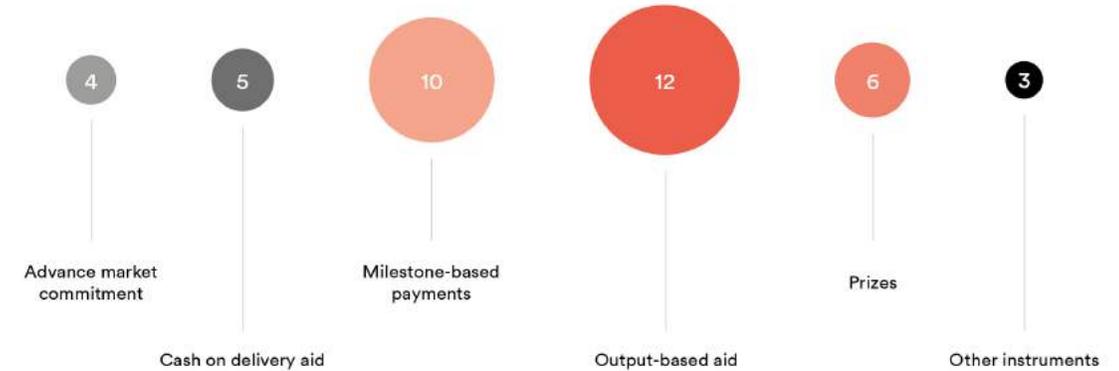
23 donor organizations attended the first meeting of the Working Group



Members have growing experience with other results-based mechanisms and see their primary role as Outcome Funders in impact bonds

- Members gaining initial learnings and experience with other RbF instruments
- 22 of 23 organizations have already launched or are considering a specific impact bond
- Over 70% of Working Group Members see their role as an Outcome Payer

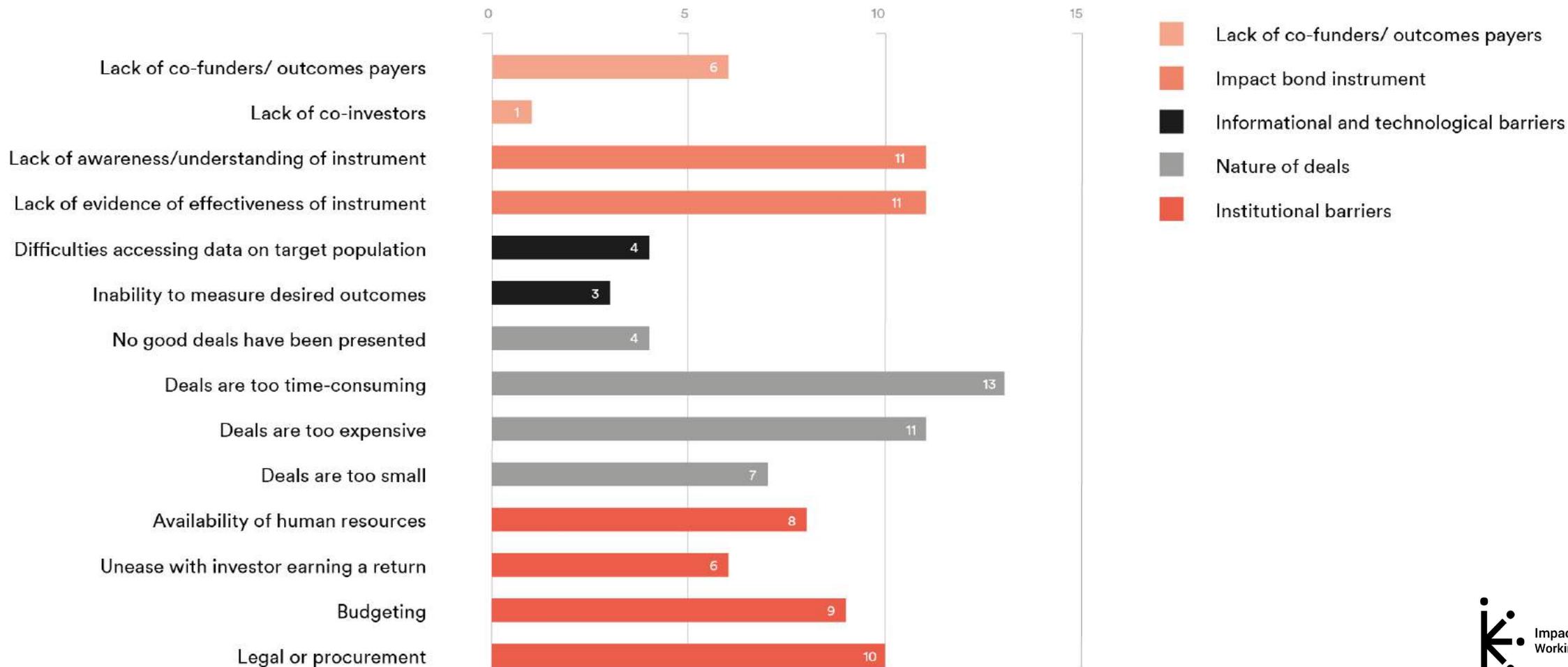
Experiences with other pay-for-results instruments



Source: Survey of working group members by Levoca Impact Labs and Social Finance

The goal of the first meeting in May was to build consensus on barriers to scale and prioritize strategy options for multi-donor initiatives

Perceived barriers to scaling the use of impact bonds

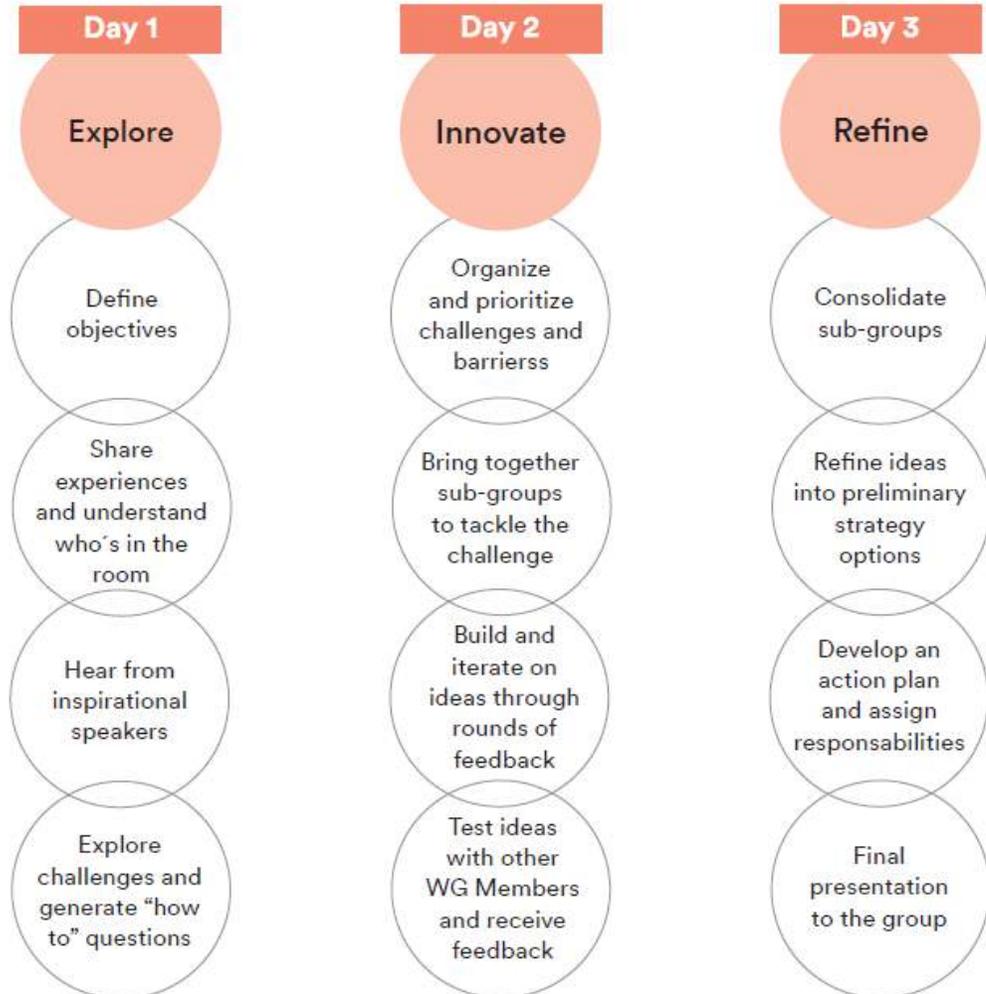


Source: Survey of working group members by Levoca Impact Labs and Social Finance



Members deepened understandings of the challenges, prioritized solutions and formed sub-groups to explore further

First workshop



Four Sub-Groups will produce more detailed prototypes before the next meeting in July

- **Sub-group 1:** Demonstration Outcomes funds by Thematic Area
- **Sub-group 2:** Country-Specific Outcomes Funds for Middle Income Countries
- **Sub-group 3:** Capacity Building, Standardization and Knowledge-sharing
- **Sub-group 4:** Investor Engagement

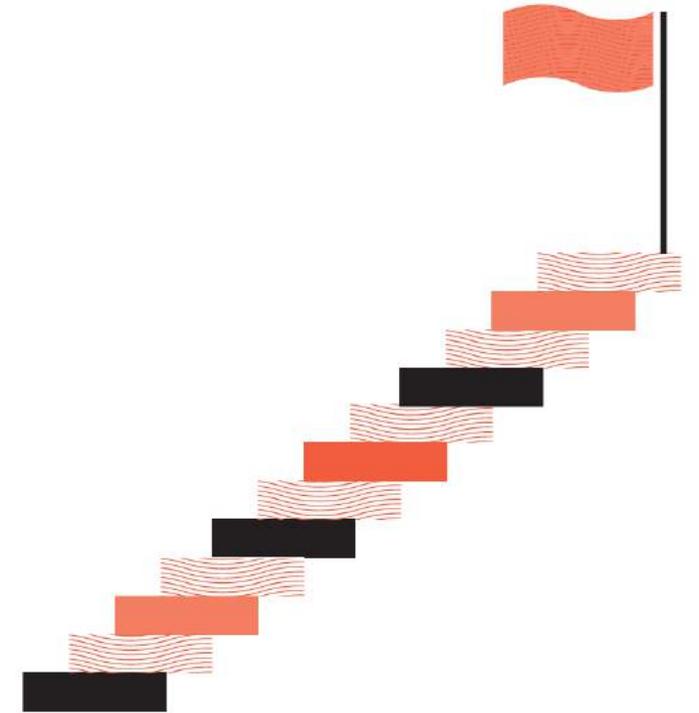
Sub-Group 1: Demonstration Outcomes Funds by Thematic Area

Key Challenge to Address:

- How to increase the volume of outcome funding available for pay-for-success contracts targeting the SDGs?

Strategy Option Proposed

- \$100m-\$500m multi-donor Demonstration Fund(s)
- Multiple pay-for-success contracts in specific thematic area(s) such as **education, health, livelihoods and employment**
- **Attract a larger pool of funding, centralize expertise, and streamline procedures (e.g., contracts, metrics) to reduce transaction costs,**
- **Provide a clear signal to the market**



Outcomes funds support the move from pilots and project-by-project to longer-term programmatic funding

What do outcomes funds do?

KNOWLEDGE BUILDING

Act as a platform for knowledge building beyond one-off projects

OUTCOMES PRICING

Allow price discovery by testing different interventions in parallel, and / or progressive rounds of funding

CONTRACTING EXPERTISE

Build understanding of outcomes-based commissioning for donors, governments and delivery partners and a focal point to develop contracting expertise

INTEGRATED INTERVENTIONS

Incentivise greater efficiency in the use of resources and support holistic approach to service delivery

INCREASED COLLABORATION

Allow increased collaboration between delivery partners and with other stakeholders

SUSTAINABLE FUNDING

Act as a longer-term source of funding, providing increased stability and capacity to delivery organisations

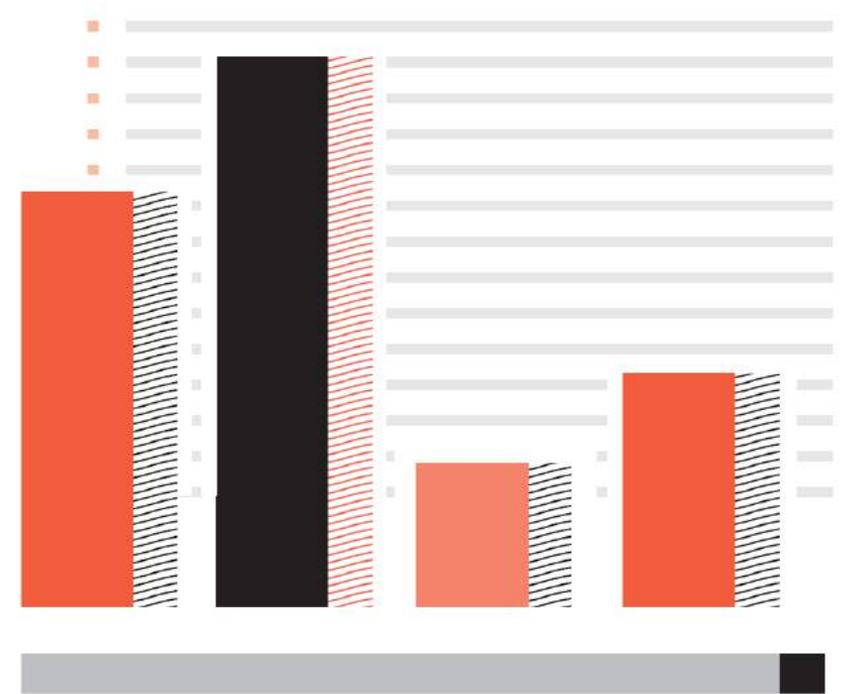
Sub-Group 2: Country-Specific Outcomes Funds for Middle Income Countries

Key Challenge to Address

- How to accelerate markets Impact Bonds in Middle Income Countries?

Strategy Options Proposed

- Country-Specific Outcomes Funds for MICs
- Focus on engaging local governments
- Building local ecosystems and market infrastructure to facilitate a replicable model in MICs
- Sharing learnings across markets, such as India, Colombia and South Africa



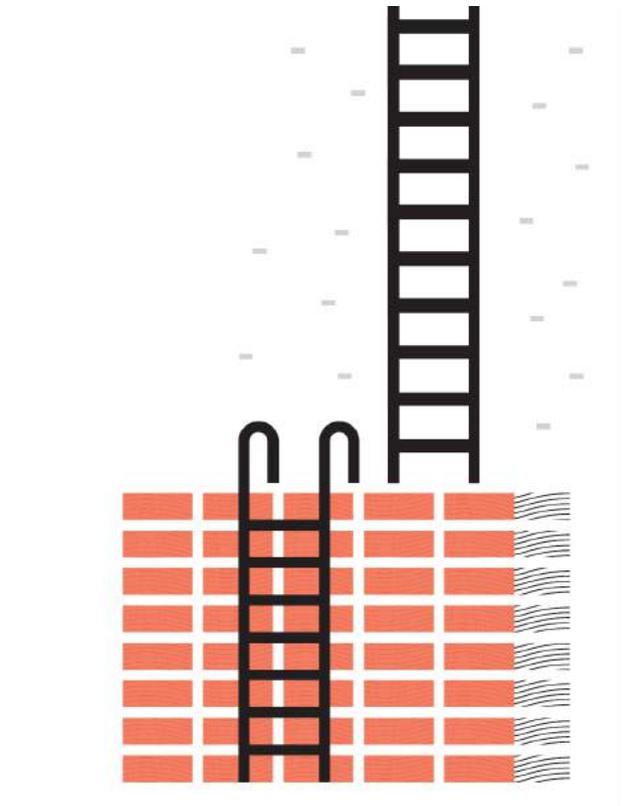
Sub-Group 3: Capacity Building, Standardization and Knowledge-Sharing

Key Challenge to Address

- How to reduce transaction costs, increase efficiency, improve transparency, and build market capacity?

Strategy Options Proposed

- **Impact Bond Toolkit and Standards**
- **Knowledge-Sharing Platform and Learning Hub**, systematization of best practices and repository of information
- **Capacity Building and Technical Assistance Platform** such as a “Centre(s) of Excellence” that can run workshops, provide advice, channel technical assistance



Sub-Group 4: Investor Engagement

Key Challenges to Address:

- How to engage and crowd-in investors to create a scalable Impact Bond market?

Strategy Options Proposed:

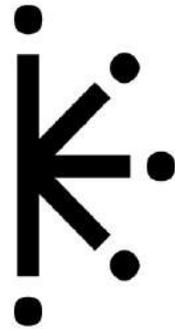
- Transition from single transactions to a “fund” or “platform” model
- Mechanisms for blending donor and commercial capital to maximize finance for development and aid effectiveness.
- Mapping investor needs and outcome funder interest to inform activities of other sub-groups



Next Steps

- Sub-group coordinators develop detailed workplans and assign responsibilities to sub-group members
- Sub-groups research and appraise strategy options to develop a detailed prototype strategy before next working group meeting in July
- Working Group Members share findings of first meeting within their organization and assess feasibility and interest to explore further
- Next working group meeting will be hosted by the French government in Paris on July 10 to July 11, 2018





Impact Bonds
Working Group