



Impact Bonds Working Group Mid-term Progress Report

I. Executive Summary

In a world of greater fiscal constraint and public accountability, Impact Bonds and similar-pay-for-success mechanisms offer development agencies and governments a powerful tool for mobilizing some of the world's most creative capital and know-how to make optimal use of scarce public resources and official development assistance (ODA). These models blend a transformational approach to the financing and delivery of social services with the potential to become important tools for achieving the Sustainable Development Goals (SDGs). A key reason for their efficacy resides in the results and accountability that accrue when development objectives are grounded on robust data, empirics and a virtuous circle of learning-by-doing and continuous improvement.

A group of public and private sector donor organizations have convened an 'Impact Bonds Working Group' (IBWG) to lay the foundations for concrete initiatives and strategies for enhancing the cost effectiveness and scalability of Impact Bonds as a means to support governments in delivering the SDGs.

The first meeting of the IBWG was hosted by the Ministry of Foreign Affairs of Belgium in Brussels on May 15-17, 2018. This meeting convened representatives from 23 development organizations. During the meeting, Members deepened their collective understanding of core barriers and challenges facing Impact Bonds, and prioritized preliminary strategy options. These strategy options will be further explored and defined in sub-groups with the task of developing detailed prototype strategies before the next IBWG meeting. The sub-groups and strategy areas established by the Working Group Members for further development following the first workshop were:

- Sub-Group 1: Capacity Building, Standardization, and Knowledge-Sharing, members will focus on solutions that build capacity, standardize practices to reduce transaction costs, and improve efficiency and transparency.
- Sub-Group 2: Demonstration Outcomes Funds by Thematic Area, members will focus on tackling the current low volumes of outcome funding for SDGs through a \$100m-\$500m multi-donor Demonstration Fund(s) that would commission multiple pay-for-outcomes contracts in specific thematic area(s) to improve key SDGs through greater aid effectiveness, innovation, learning and scale.

- Sub-Group 3: Outcomes Market Funds for Middle Income Countries, Members will explore a possible regional “Outcomes Fund(s)” in promising markets, such as India and Colombia, with the goal of stimulating Government use of outcomes commissioning in Middle Income Countries.
- Sub-Group 4: Investor Engagement, Members will explore mechanisms for donors and development finance institutions to mobilize and aggregate investors in a scalable market for Impact Bonds and other outcomes-based investment vehicles.

Several cross-cutting themes emerged that will be streamlined in future discussions of strategy options by the sub-groups, including (i) shifting from pilot projects to programmatic and portfolio-based approaches (e.g. Outcomes Funds), (ii) developing strategies that reflect both development and humanitarian contexts, (iii) mainstreaming pay-for-success mechanisms inside development organizations, (iv) building capacity through learning-by-doing, (v) the primacy of local ownership and (vi) engaging and communicating with the wider ecosystem of local governments and subject matter experts.

Next Steps:

- The next all-Members meeting of the IBWG will be hosted on July 10-12, 2018.
- The IBWG will share initial findings from the first IBWG meeting at the Development Committee on Enterprise Development (DCED) meeting at the G7 Summit in Canada.
- Working Group Members may join one or more sub-groups. Each sub-group is tasked with developing a detailed prototype of their strategy options before the second all-member Working Group meeting on July 10-12. Each sub-group is responsible for developing an action plan, and assigning responsibilities to each member to ensure the action plan is executed. Sub-group coordinators will organize regular check-ins with other sub-group members, and the IBWG Secretariat will provide the necessary support and structure to help move these prototypes forward.
- Individual members will share outputs of the first meeting with internal and external stakeholders and return to the second meeting with a clearer policy position on the proposed strategy options from first workshop.
- New Members may join the Working Group and sub-groups at or before the next all-members meeting.

II. Overview of the IBWG

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 and at scale, thereby improving the quality and impact of development projects and contributing to meeting the SDGs.

Core activities of the IBWG:

- Through a series of workshops, identifying barriers and solutions for leveraging Impact Bonds and related RbF instruments effectively and at scale.
- Sharing knowledge, experiences and lessons learned, including the systematization and dissemination of good practices.

- Identifying potential areas where Members may consider collaboration on joint initiatives designed to overcome common barriers and achieve scale.
- Communicating milestones on progress and next steps to the wider market.

The main deliverables of the IBWG:

- A mid-term update summarizing findings from the first workshop will be presented by the Working Group to the Development Committee for Enterprise Development (DCED) Meeting at the G7 Summit.
- A final report outlining recommended strategies for launching Impact Bonds and similar instruments efficiently and effectively at scale.
- An action plan for taking forward the recommendations in the final report and a plan of action for continued collaboration and knowledge exchange after the Working Group mandate expires.

III. First all-members meeting of the IBWG

The first meeting of the Impact Bond Working Group was held in Brussels, Belgium on May 15 – 17, 2018. This meeting convened 23 outcome funder organizations representing bilateral cooperation agencies, multilateral development agencies, private foundations, and participants from 7 non-member organizations in the private sector and civil society. The meeting was hosted by the Ministry of Foreign Affairs of Belgium.

Working Group Members in Attendance

Agence Française de Développement (AFD)	Swiss State Secretariat of Economic Affairs (SECO)
British Asian Trust	Tata Trusts
DFID	The Global Fund
Enabel	UBS Optimus Foundation
French General Directorate of the Treasury	United Nations Secretariat
French Ministry of Foreign Affairs	UN Special Envoy for Haiti
Global Affairs Canada	UNDP
Global Financing Facility	UNICEF
Inter-American Development Bank (IDB)	USAID
International Finance Corporation (IFC)	Wellspring Philanthropic Fund
Ministry of Foreign Affairs of Belgium	World Bank
Ministry of Foreign Affairs of the Netherlands	

Non-Member Experts

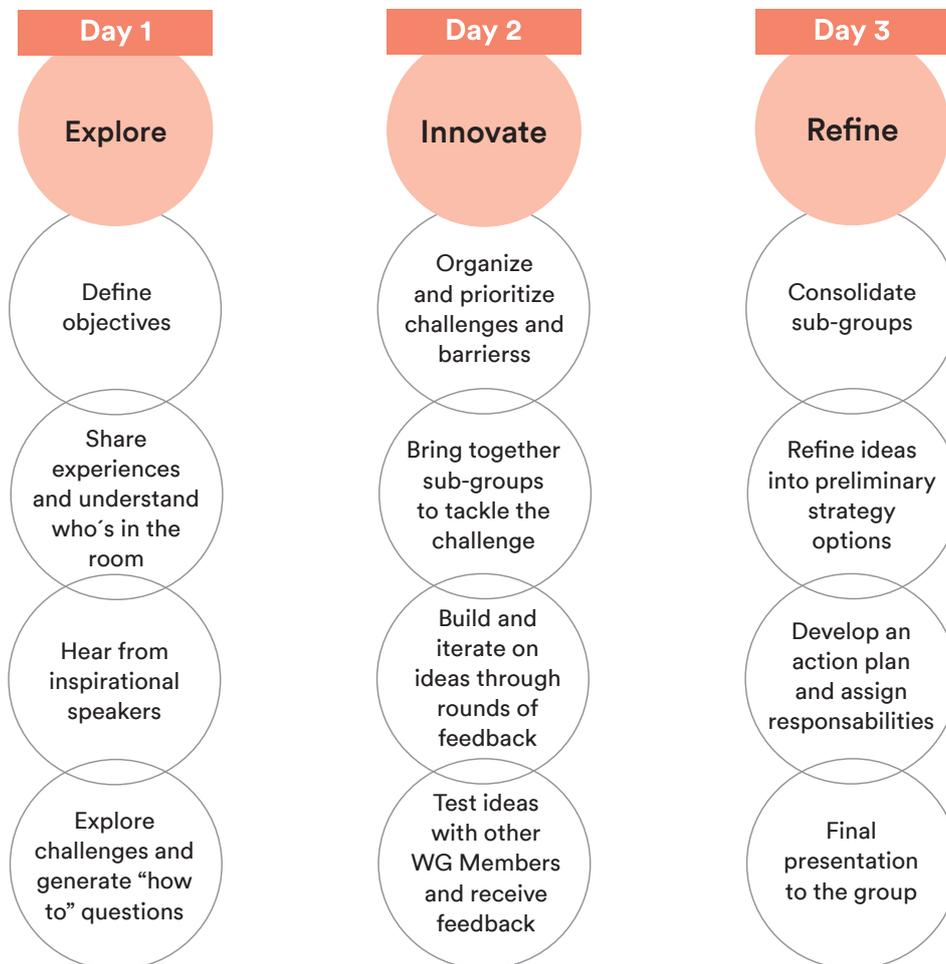
Ashoka	Kois Invest
BRAC	Munich RE
Fundación Corona	Population Services International (PSI)
International Committee of the Red Cross (ICRC)	

IBWG Secretariat

Levoca Impact Labs	Social Finance
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The meeting proceeded as an interactive, creative problem-solving workshop, and focused on one central, core question to build common understanding, and to prioritize strategy options for overcoming barriers: *“How do we make Impact Bonds and related pay-for-success mechanisms a cost-effective and scalable proposition for governments to deliver on the SDGs?”*

Figure 1: Workshop 1 Activities

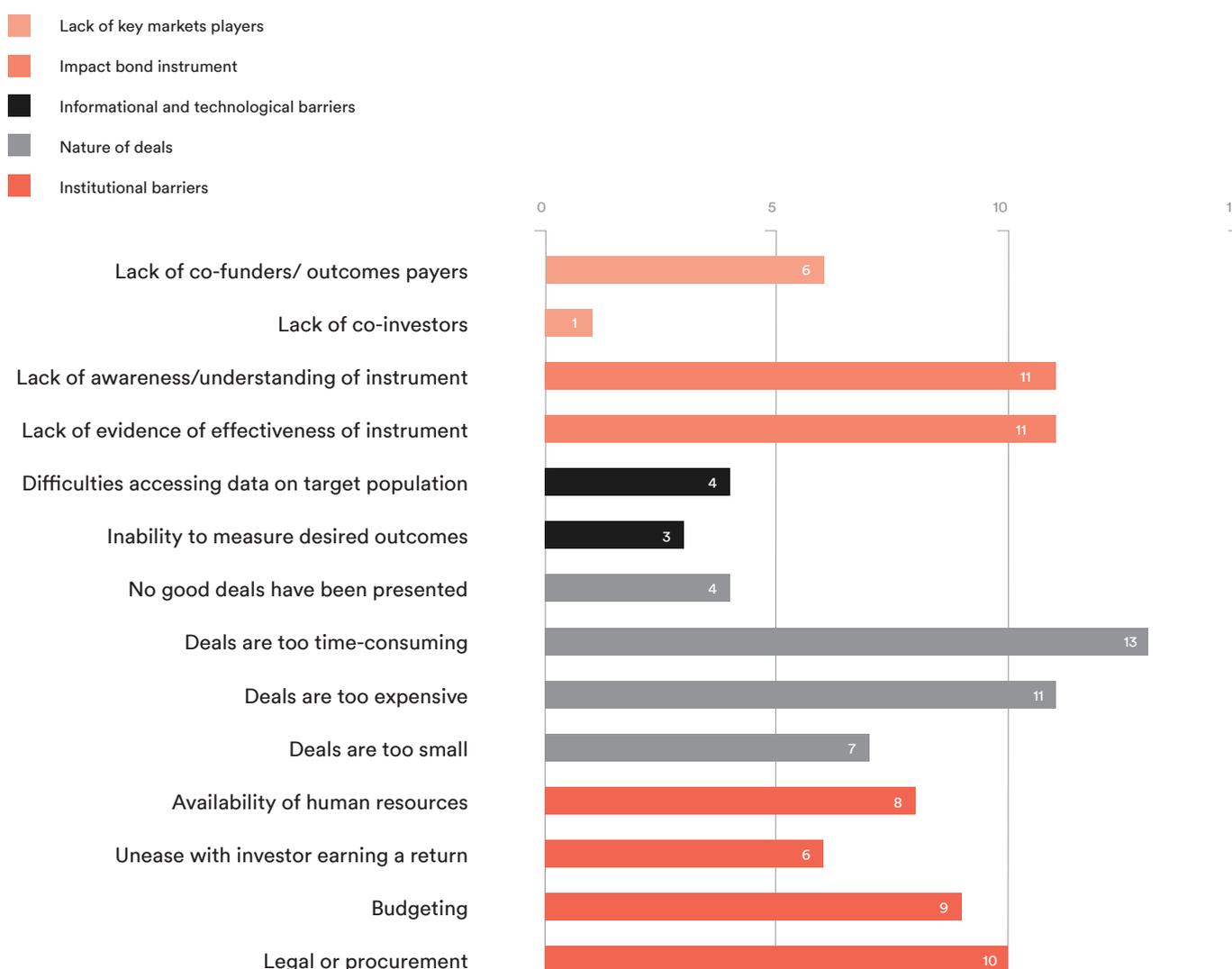


Workshop attendees were provided with detailed briefing papers containing a framework for assessing market barriers and potential solutions, and a summary of pre-meeting survey results. During the workshop participants received additional stimulus from a series of presentations and speakers. These included presentations from UBS and Munich Re on investors' perspectives, from the IDB and World Bank on the role of MDBs in RbF and Impact Bond operations, from the Ministry of Foreign Affairs of Belgium on the experience of Belgium in the Humanitarian Impact Bond, presentations from Levoca Impact Labs and Social Finance on Outcomes Funds and the detailed results of the Member survey that mapped the experience and interest of Members in Impact Bonds.

IV. Priority barriers and strategy options

Prior to the first meeting, Working Group members participated in a survey and a follow-up phone call with Levoca Impact Labs and Social Finance, to map the experience to date of their organization with Impact Bonds and other RbF instruments, including perceived barriers and challenges for taking Impact Bonds to scale, including barriers linked to the lack of co-funders and outcomes payers, understanding of the instrument, informational and technological barriers, nature of the existing pipeline, and institutional barriers.

Figure 2: Perceptions of main challenges facing teams that have launched or are currently considering Impact Bonds.



During the first day and a half of the workshop, Members deepened their understanding of these barriers and refined, clustered and prioritized the following challenges facing the market for Impact Bonds:

- **Key challenge 1:** How to reduce transaction costs, increase efficiency, improve transparency, and build market capacity?

- Key challenge 2: How to increase the volume of outcome funding available for pay-for-success contracts targeting the SDGs?
- Key challenge 3: How to accelerate markets for outcomes-based instruments in Middle Income Countries and emerging economies?
- Key challenge 4: How to engage and crowd-in investors to create a scalable Impact Bond market?

Based on these key challenges, preliminary strategy options were identified. These strategy options will be further defined by sub-Groups and converted into detailed prototypes before the second meeting of the IBWG in July 2018. The following strategy areas were considered prerequisites for eventual scaling of Impact Bonds.

- Sub-Group 1: Capacity Building, Standardization, and Knowledge-Sharing, Members will focus on the actions to build capacity, and to better standardize practices in order to reduce transaction costs, increase efficiency, and improve transparency. This group will examine “Centers for Excellence” and an ‘Impact Bond Toolkit’ to mainstream terminology, standardize business processes, provide templates for contracts, design memos, investor reports, due diligence, and best practice principals for Impact Bond procurement and calculation of risk/return, among other potential activities. A possible electronic platform for the dissemination of best practices, templates, relevant research, cases, rosters and other resources will be examined as well as ways to leverage emerging technologies, such as blockchain, more effectively.
- Sub-Group 2: Demonstration Outcomes Funds by Thematic Area, Members will focus on the current low volumes of outcome funding for SDGs through \$100m-\$500m multi-donor Demonstration Fund(s) that would commission multiple pay-for-outcomes contracts in specific thematic area(s) to improve key SDGs through greater aid effectiveness, innovation, learning and scale. Such a mechanism could attract a larger pool of funding around select thematic areas and by so doing, provide expertise for designing commissions and appraising proposals, develop streamlined procedures (e.g., contracts, metrics) to reduce transaction costs, and provide a clear signal to the provider and investor market, and serve as a platform for accelerating learning by donors.
- Sub-Group 3: Outcomes Market Funds for Middle Income Countries, Members will explore the viability of regional or country-specific “Outcomes Fund(s)” in promising markets such as India and Colombia. The funds would aim to blend donor and MDB financing with local public and private sector funding for outcomes, as means to leverage scarce ODA resources to help national governments transition public spending toward results-based models in select sectors. The final goal would be to support the adoption and mainstreaming of results-based financing into domestic budgetary allocations, and to put in place an ecosystem that would facilitate a replicable model for Middle Income Countries in South Asia, Africa and Latin America.
- Sub-Group 4: Investor Engagement, Members will explore mechanisms to attract and aggregate investors in a scalable Impact Bond market. The Group will also examine the transition from single transactions to a “fund” or “platform” model in order to increase scale and to attract more investors of different types at lower transaction costs. Toward this end, Sub-Group 4 will undertake Outcome Funder Mapping, engage in a fact-finding exercise with investors who have expressed interest in Impact Bond operations, and will develop early concepts and themes for Development Impact Bonds (DIBs), including opportunities for blending donor and commercial capital to maximize finance for development and aid effectiveness.

V. Next steps and workplan

Activity	1					2					3					4					5					Detail / Deliverable								
	APRIL					MAY					JUNE					JULY					AUGUST						SEPT					OCTOBER		
Phase 1. Set up Working Group																																		
1.1 Launch Working Group and on-boarding of members and other stakeholders	●	●	●	●	●																										Secretariat/DFID to send welcome email to members and follow up with telephone calls.			
1.2 Carry out initial diagnostic of Working Group members' interests and objectives	●	●	●	●	●																										Members to assess their organization's priorities and positioning on impact bonds and other pay-for-success instruments through survey and follow-up calls with Secretariat.			
Phase 2. Impact Bond Workshops																																		
2.1 First Workshop: Identifying Barriers, Solutions and Priorities																																		
Participate in workshop																															All members to attend 2.5-day workshop in person to collaboratively identify barriers and solutions. Members to short-list 3-4 options for the WG to explore further, in the prototyping phase.			
Communicate outputs and next steps																															Secretariat to draft summary of workshop activities and circulate for non-objection of members.			
Present workshop findings at DCED meeting at G7																															Members to present interim findings of Working Group at DCED meeting.			
2.2 Prototyping short-listed options																																		
Kick-off call																															Kick-off call between Sub-Group coordinators and Secretariat.			
Prototype template distributed to team members																															Secretariat to distribute preliminary template structure.			
Sub-Group Coordinators take lead in drafting Action Plan to populate prototype template and obtain all necessary external inputs by Workshop 2																															Sub-Group Coordinators develop action plan to complete prototype template. Team members take on specific responsibilities in the Action Plan and template. Sub-Group Coordinators organize weekly check-ins with team members and action plan is adjusted, as needed.			
Members obtain internal mandate to take short-listed option(s) to prototyping phase																															Working Group members to hold internal consultations and obtain any necessary mandates to support further exploration of short-listed options during prototyping phase.			
Sub-Groups share prototypes internally																															Members share prototypes internally to obtain preliminary feedback to finalize prototypes by Workshop 2.			
Preliminary outreach and mapping of external stakeholders and experts to appraise prototypes																															Members share prototypes externally to obtain preliminary feedback to finalize prototypes by Workshop 2.			
Assess need for additional research																															Executive Committee and Secretariat support members in assessing the need for additional research to support prototyping of short-listed options.			
Commission any needed additional research																															Members to commission any needed additional research in coordination with Secretariat.			
Prototypes finalized for Workshop 2																															Sub-Groups have a final prototype ready for Workshop 2.			



Impact Bonds
Working Group