

Impact Bonds Working Group Summary of Second All-Members Meeting



I. Summary

Impact bonds and other pay-for-success mechanisms are a tool for governments and development agencies to mobilize private finance into the Sustainable Development Goals (SDGs). The objective of the Impact Bonds Working Group (“IBWG”) 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.

The United Nations Secretariat hosted the second all-Member meeting of the IBWG on July 9 – 11, 2018, in Barcelona, Spain, at the United Nations University campus in Barcelona. This meeting convened 24 outcome funder organizations, representing bilateral cooperation agencies, multilateral development agencies, and private foundations, and participants from 25 non-member organizations in the private sector and civil society.

During the second IBWG meeting, Members received critical feedback from external experts, participated in technical learning sessions, mapped out inter-dependencies of strategies under consideration, and proposed the creation of a Market Acceleration Platform to address key barriers to scaling impact bonds and similar pay-for-success mechanisms around the following priority action areas.

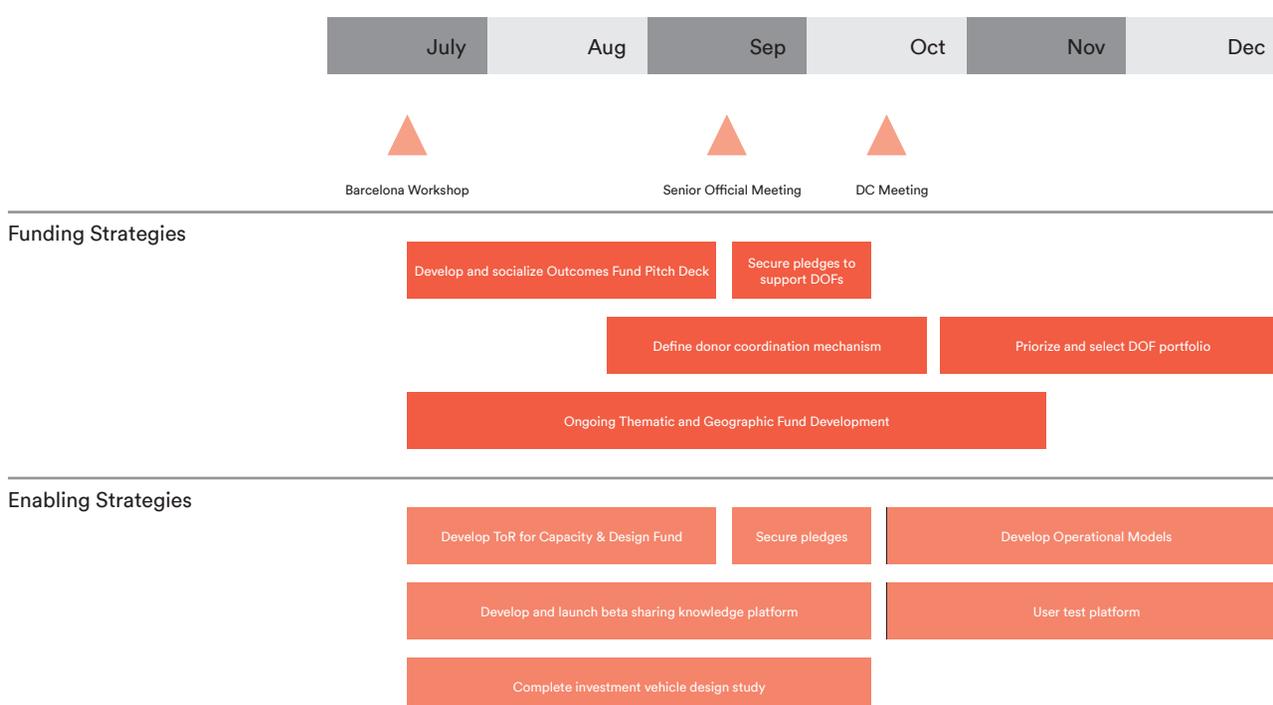
- a. Accelerating Outcomes-Based Commissioning for high-priority development challenges through Demonstration Outcomes Funds. The IBWG will seek to launch a portfolio of Demonstration Outcomes Funds, with a minimum initial target of US\$150 million committed by 2020 to fund a first pilot of outcomes-based commissioning at scale, serving to generate robust evidence on when and how to use pay-for-success instruments and uncover their costs and benefits relative to other instruments.
- b. Building markets for impact bonds through country-focused outcomes funds in Middle Income Countries. The IBWG Members will aim to partner with stakeholders in Colombia and India and, potentially, other Middle Income Countries, to develop Outcomes Funds concepts, including Outcomes Funds for ‘Skilling’ and for ‘Education’ in India; and an Innovation Outcomes Fund for Colombia, building off the existing ‘SIBs.co’ impact bond program in Colombia focused on employment outcomes.

- c. Deepening capacity in the marketplace and enhancing knowledge-sharing infrastructure.
The IBWG will aim to support the creation of a high quality pipeline for demonstration outcomes funds, accelerate innovation in the sector, and promote a sector-wide approach to learning and knowledge sharing, through a multi-donor technical assistance fund, a knowledge-sharing platform and on-going market education activities.
- d. Engaging investors and mobilizing private finance through outcomes-based commissioning.
The IBWG Members recommended the commissioning of an in-depth review and design of the optimal investment vehicle structures and approaches for pooling and blending investor capital, and articulating specific minimum viability requirements to raise funds, quality and depth of pipeline, and expected social and financial return requirements.

Next Steps:

- The Secretariat will prepare final work plans and action steps for the IBWG members for the months of July, August and September 2018.
- A high-level meeting among senior officials will be coordinated by DFID in the fall of 2018.
- A final Recommendations Report of the IBWG will be prepared by the Secretariat with Member input and launched by the IBWG in fall 2018.
- IBWG Members will define external communications strategies, including the announcement of initiatives and initial funding pledges, by the end of September 2018.
- A final all-Members meeting has been proposed for the fall of 2018 to be hosted at the World Bank in Washington, DC. A final date and location will be communicated by the Secretariat to Members by mid-August 2018.

Figure 1: Timeline of Next Steps and Key Actions for IBWG



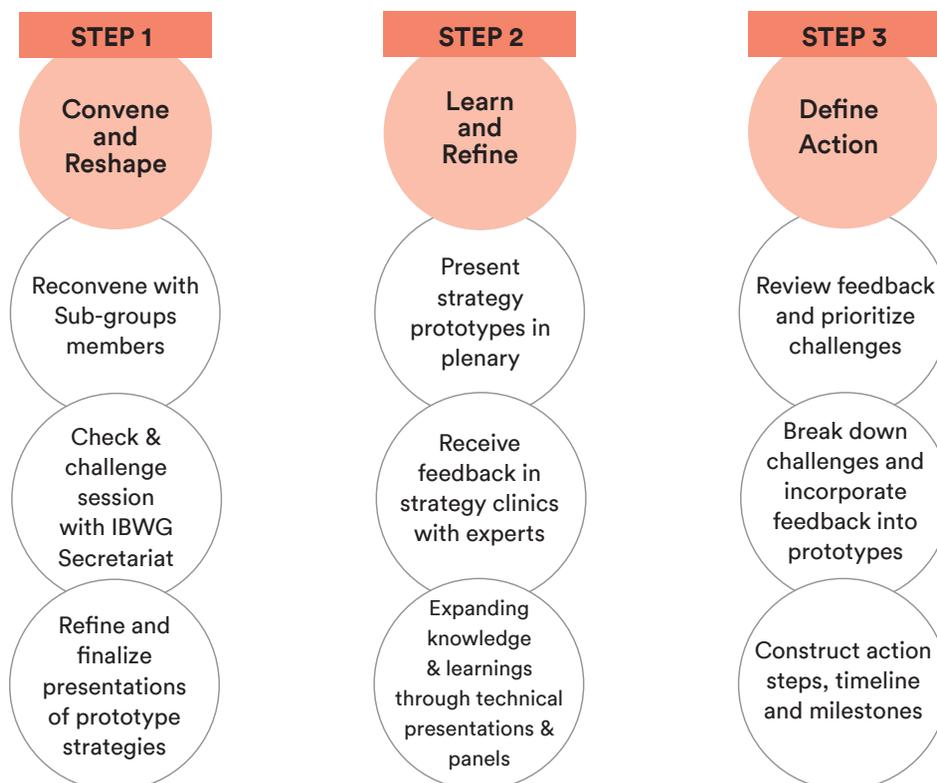
II. The second all-members meeting of the IBWG in Barcelona

The objectives of the second all-member meeting in Barcelona were to (i) refine and reshape prototype strategies of the sub-groups, receive feedback from external experts from the private sector, civil society and government, (ii) expand the overall reach of the working group to engage non-members more broadly, (iii) deepen knowledge and learnings among members on specific technical areas, such as technology, data, investment, market building and standardization, and (iv) chart out action steps for seeing through strategy options into approvals and implementation.

The second Working Group meeting built off the results of the first meeting of the IBWG, which was hosted by the Ministry of Foreign Affairs of Belgium in Brussels, Belgium on May 15-17, 2018. The first meeting of the IBWG brought together Member organizations to build common understanding of the barriers and challenges for taking Impact Bonds to scale, and to prioritize strategy options for overcoming those barriers. At the conclusion of this first meeting, four sub-groups had formed with separate workplans to develop more detailed prototype strategies before the second IBWG meeting. From May 17 to July 9, 2018, Members met virtually with their sub-groups, interviewed stakeholders in the market, carried out desk research and participated in learning activities and webinars organized by the Secretariat.

The Swiss State Secretariat for Economic Affairs (SECO) presented the interim results of this workshop on behalf of the Executive Committee of the IBWG, at the annual meeting of the Development Committee for Enterprise Development (DCED) on June 8, 2018, in Canada.

Figure 2: IBWG Meeting 2 Activities



During the event, Members first reconvened in their sub-groups and participated in check and challenge sessions with the IBWG Secretariat, Levoca Impact Labs and Social Finance. The following day, Members participated in an interactive “Learning Program”, including panels, keynotes, quickfire feedback clinics to receive expert input into strategy prototypes, and cutting edge thinking around data, technology, market building, blockchain, standardization of legal contracts, and development of investment pipelines.

Building on the input from the second day’s Learning Program, sub-groups discussed the feedback they received from external experts, identified inter-dependencies between sub-groups and strategy areas, and mapped out key actions steps for taking initiatives forward.

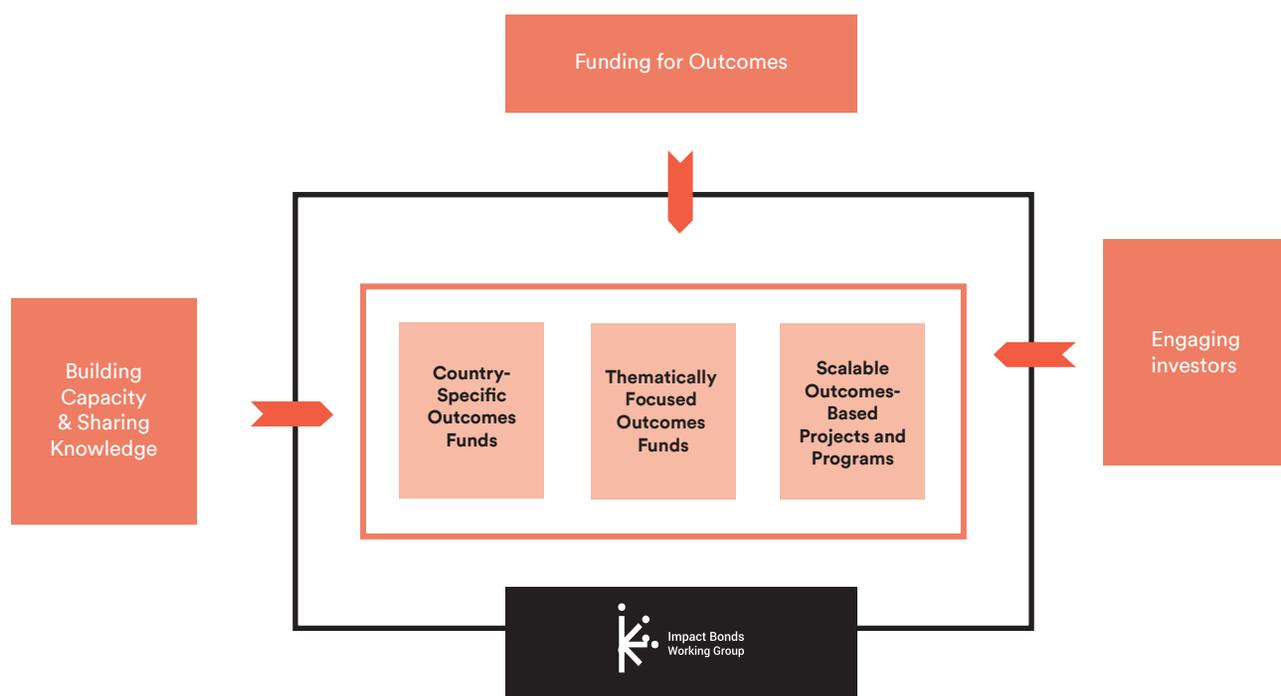
Figure 3: Participants at the second meeting of the Working Group in Barcelona.

Working Group Members in Attendance	
Agence Française de Développement (AFD)	Ministry of Foreign Affairs of the Netherlands
British Asian Trust	Swiss Agency for Development and Cooperation (SDC)
DFID	Swiss State Secretariat of Economic Affairs (SECO)
Enabel	Tata Trusts
Fred Hollows Foundation	The Global Fund
French Ministry for Europe of Foreign Affairs	UBS Optimus Foundation
Fundación Corona	United Nations Secretariat
Global Affairs Canada	UN Special Envoy for Haiti
Global Financing Facility	UNDP
Inter-American Development Bank (IDB)	UNICEF
International Finance Corporation (IFC)	Wellspring Philanthropic Fund
Ministry of Foreign Affairs of Belgium	World Bank
Non-Member Experts	
Acumen	GoLab – Oxford University
Aga Khan Foundation	ICRC
Bertha Centre	Instiglio
BRAC	Ixo Foundation
Bridges to Prosperity	Kois Invest
Bridges Ventures	Maze
Convergence	Munich Re
Ecorys	New York University
Educate Girls	PSI
Education Cannot Wait	Stratigos Consulting
Education Outcomes Fund	UK Government (DCMS)
Financing Alliance for Health	Volta Capital
Georgetown University	
IBWG Secretariat	
Levoca Impact Labs	Social Finance

III. Progress made on strategy prototypes in Barcelona

The prototypes developed by the four sub-groups will feed into a unified strategy and set of recommendations that will be proposed by the IBWG to address core barriers to scale, including barriers around supply, demand and the enabling environment. Specifically, IBWG will seek to advance a Market Acceleration Platform that will aim to increase the supply of funding for outcomes through the acceleration of outcomes funds concepts, expand knowledge-sharing and capacity building infrastructure, and mobilize private finance through outcomes-based investment vehicles.

Figure 4: IBWG Outcomes Market Acceleration Platform



Below is a summary of the core conclusions and next steps of the IBWG. A final recommendations report of the IBWG will detail these conclusions further and will be launched prior to the United Nation’s General Assembly’s 73rd session in September 2018.

a. Accelerating Outcomes Based Commissioning for high priority development challenges through Demonstration Outcomes Funds

The IBWG will aim to launch a portfolio of Demonstration Outcomes Funds, with an initial target of US\$150 million of funding committed by 2020 to fund outcomes-based transactions across approximately three demonstration outcomes funds. Initial pledges from donors would be made in the fall of 2018. The portfolio of outcomes funds supported through this market strategy will help demonstrate how outcomes-based commissioning can be done at a larger scale and how transaction costs can be reduced, generating robust evidence on when and how to use pay-for-success instruments and their costs and benefits relative to other instruments. The approach will help transition the impact bond market from “single pilot projects” to a **“programmatic approach in thematic areas”**, where commissioning design costs are spread across multiple transactions, thereby leading to **lower transaction costs per project**, and **accelerating a learning agenda** for the broader market. IBWG will prioritize assessing existing outcome fund concepts currently under development in the market, with geographic (LDCs and MICs) and thematic diversity (e.g., education, health, employment).

As a first step, a high-level meeting will be organized around the UN General Assembly's meetings in September by DFID with other key donor organizations. At that meeting, the IBWG will seek to secure pledges from at least three bilateral/ODA donors, and to create a donor coordination platform for making key decisions, setting learning goals, and facilitating donor alignment. Over time, the platform may evolve into a **market acceleration platform** that facilitates convening, fundraising and advocacy support for funds that it judges to be evidence-based, well-designed and able to promote innovative commissioning at scale. The platform will help bring in new funds and support donor decision-making and appraisal.

b. Building markets for impact bonds through country-focused outcomes funds in Middle Income Countries

The IBWG will seek to explore the viability of regional or country-specific 'Outcomes Fund(s)' in promising markets, such as India and Colombia, to help national governments transition public spending toward results-based models. The IBWG will aim to focus initial efforts on supporting stakeholders in Colombia and India to develop national Outcomes Funds concepts. Both India and Colombia have been pioneers in the impact bonds space. India has launched the first development impact bond – Educate Girls – which concluded in 2018 and exceeded target outcomes and returned capital to its investors. In addition, India launched two additional DIBs in 2018 on health and education and has growing interest from Government, global/local foundations, high net worth individuals and civil society organizations. Colombia launched the first social impact bond in a Middle Income Country with the government as an outcome payer in 2017 and expects to launch a second impact bond in 2018 also on employment at a sub-national level.

The IBWG will aim to support India and Colombia with developing and testing these Outcomes Funds concepts for middle-income countries through the sharing of knowledge and expertise on the design and implementation phases, supporting fundraising efforts, and sharing learnings with other middle-income countries. Specifically, the IBWG will support India in the exploration of national-level 'skilling' and education outcomes funds for India, to be designed by 2019 and launched by 2020. The IBWG will seek to support Colombia in the exploration of a national Colombian Outcomes Fund with a target of \$35 million for 15 Social Impact bonds that will focus on employment programs building off its existing 'SIBs.co' program with Fundación Corona, the IDB and SECO, and expanding into other sectors, such as health and education.

c. Deepening capacity in the marketplace and enhancing knowledge-sharing infrastructure

The IBWG will support the following three areas for capacity building and knowledge-sharing, which will support the creation of a high quality pipeline for demonstration outcomes funds, accelerate innovation in the sector, and promote a sector-wide approach to learning and knowledge sharing.

- Knowledge-sharing platform: The IBWG will seek to develop an online platform to share knowledge and information on impact bonds in developing countries. The platform will support collaboration and co-creation among stakeholders in the market, interface with and complement existing impact bond knowledge platforms, and promote transparency and open data principals among platform users. The Working Group will aim to have a beta version of the platform ready by the UN General Assembly's meetings in September 2018, which will be user-tested with stakeholders in Colombia and India as a first pilot.
- Market education and convening: The IBWG will support a continued community of practice among outcome funders and other impact bond stakeholders, such as annual networking events for sharing knowledge and new ideas under development (e.g. 'Impact Bond Marketplace'), and targeted convenings to raise awareness among key stakeholder and market participants, such as domestic governments, service providers, foundations, and investors. The next annual impact bond marketplace event has been proposed for the first quarter of 2019 and to be hosted in Colombia.

- Pay-for-Success Innovation and Capacity Fund: The IBWG will support the creation of a grant fund that will support innovation, capacity building and pipeline development through two funding windows: (i) a deal design window, and (ii) an innovation and capacity window. The deal design window will consist of a competitive funding pool purposed toward the design of specific impact bond transactions and for the design and set up of Outcomes Funds. The innovation and capacity window will support feasibility and design studies in impact bonds in new thematic areas that would not be supported by Outcomes Funds, and support governments to carry out diagnostics of country systems, strengthen data and evidence infrastructure, adapt legal frameworks, and defray administrative costs associated with DIB design and management, as well as support capacity needs of other impact bond users including service providers.

d. Engaging investors and mobilizing private finance through outcomes-based commissioning

The IBWG will seek to mobilize new scalable impact investment opportunities for investors to help close the gap to reach the Sustainable Development Goals. Currently, impact bond projects have high transaction costs and below market investor returns, reflecting investors with a philanthropy sector profile and return expectation. To mobilize new money and at greater scale into the SDGs through impact bonds, the IBWG will support the creation of impact bond investment vehicles capable of raising money from a variety of investor profiles, including foundations as well as development finance institutions (IFC, IIC, CDC, etc), high net worth individuals (HNWI) and institutional clients.

In response to growing momentum and interest for demonstration outcomes funds among key donor agencies, the IBWG recommends commissioning an in-depth review and design of the optimal investment vehicle structures and approaches for pooling and blending investor capital, and articulating specific minimum viability requirements to raise such a fund, including the volume of outcomes funding that has to be committed in order reduce transaction costs enough to raise a viable investment fund, quality and depth of pipeline, and expected social and financial return requirements.

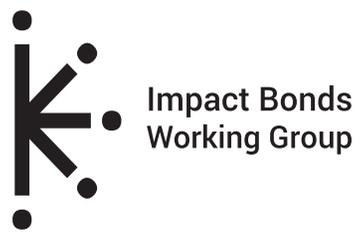
IV. Next steps and workplan

Activity	1 2 3 4					1 2 3 4 5					1 2 3 4					1 2 3 4 5					1 2 3 4					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																																		
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.			
Prototypes finalized for Workshop 2																															Sub-Groups have a final prototype ready for Workshop 2.			
2.3 Second Workshop: Refining priorities and prototypes																																		
Participate in workshop																															All members to attend workshop in person to collaboratively refine short-listed priorities and prototypes.			
Define next steps																															Secretariat to draft summary of workshop findings. Executive Committee and members to review, provide feedback and approve. Members to agree on next steps and confirm workplan for final months.			

Activity

Detail / Deliverable

	1	2	3	4	1	2	3	4	5	1	2	3	4	1	2	3	4	5	1	2	3	4	1	2	3	4	5																	
	APRIL				MAY					JUNE				JULY					AUGUST					SEPT				OCTOBER																
Phase 3. Final report and public launch																																												
3.1 Final strategy and Implementation Recommendations																																												
Provide comments to draft of final report																					●	●									Secretariat to draft report and circulate comments. Members to review and provide any relevant comments within 10 working days.													
Ensure recommendations are understood and agreed to																					●	●	●									Secretariat to finalize draft based on comments received. Members to review final draft and approve deliverable and any external communications.												
Communicate to wider market																					●	●	●	●	●									Communications focal points of members to coordinate external communications of final report of Working Group activities in coordination with Executive Committee and Secretariat.										
3.2 Public launch of initiative agreed to by WG members																																												
Plan launch (tbd)																					●	●	●	●	●									Communications focal points of members to coordinate launch of selected initiatives with Executive Committee and Secretariat.										
Launch (tbd)																																		●	Members to support any planned launch activities and communications, in coordination with Executive Committee and Secretariat.									



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Working Group