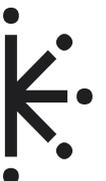


# Exploring past experiences to overcome today's challenges

A collection of stories shared by industry experts at the 3rd Impact Bonds Working Group Annual Conference to support the development of future pay-for-success programs and move the market to maturity



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This document was commissioned by the Executive Committee of the Impact Bonds Working Group.



UBS Optimus  
Foundation



This report was produced by Levoca Impact Labs, in its role as the Secretariat of the Impact Bonds Working Group.

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#### Disclaimer

The stories and advice were prepared by the respective 'storytellers' in their personal capacity. The views, thoughts and opinions expressed in this document are the storytellers' own and do not necessarily reflect the view of their employer, the Impact Bonds Working Group, the Impact Bonds Working Group Executive Committee, or Levoca Impact Labs.

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## Foreword

**The 2030 Agenda for Sustainable Development underscores the need for greater private sector participation in development finance and more efficiency in the use of public sector and ODA resources.**

Toward this end, pay-for-success financing is an effective tool to increase the social and economic impact of development programs that target hard-to-reach SDGs. This innovative financing modality enables both governments and donors to pay only for results, while attracting private investors who are willing to share in the financing risk needed to achieve development impact. This partnership is based on accountability, impact, and government knowledge and capacity to achieve SDG impact.

**In January 2018, a group of 23 major donor and international organizations dedicated to paying for results (i.e. “Outcomes Funders”) launched an Impact Bonds Working Group (IBWG).** The IBWG was based on learnings from the successful launch of several impact bonds in emerging markets and developing countries and the need for greater collaboration among development agencies looking to mainstream pay-for-success approaches into their funding models. The IBWG now embraces an agenda that aims to replicate and scale pay-for-success financing instruments with greater cost-effectiveness, while also serving as a convening platform for Outcome Funders to draw upon the expertise and experience in the market needed to launch high impact initiatives.

**The IBWG hosted its 3rd Annual Conference on March 3, 2020 in London, bringing together representatives of over 70 organisations currently participating in or investigating the use of pay-for-success instruments to explore the overarching theme of moving the market toward maturity.** To this end, technical breakdown sessions were held on topics relevant to advancing the pay-for-success market. Industry experts were invited to share their stories to encourage deeper discussions among attendees and to explore past experiences to overcome today’s challenges. The five topics covered by the sessions were (1) An investor’s perspective on how to create an investible transaction, (2) Fit-for-purpose: Reasons why we chose an impact bond and did the evidence match up, (3) How we are developing a *great* Outcomes Fund, (4) How we are adapting to local conditions (including government) and building local ecosystems, and (5) How we are using data and performance management to gain efficiencies and enhance impact in delivery. This document is a collection of the stories and advice that were shared with attendees. The stories have been ordered by session topic and alphabetically by the first name of the storyteller.

Levoca Impact Labs  
IBWG Secretariat

# Advice from an Investor in the Field

**SESSION TOPIC** An investor's perspective on how to create an investible transaction

**STORYTELLER** Christian Pettenkofer, Munich Re

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## A PIECE OF ADVICE

- **Best instrument** - opt for an Impact Bond only if it is the best option to fund an intervention.
- **Be committed** - most Impact Bonds which fail or are significantly delayed have been treated as an option rather than a firm conviction.
- **Take ownership and be responsible to deliver** - initiate the Impact Bond only if you are the project's owner and preferably the only or main service provider.
- **Think big** - pilot projects do not create substantial impact; scale is important.
- **Team-up and learn from others** – seek advice and build up the skillset necessary. The financial skills required are often underestimated.

# Enhancing the Investibility of High-Impact Enterprises through Social Impact Incentives

**SESSION TOPIC** Fit-for-purpose: Reasons why we chose an impact bond and did the evidence match up

**STORYTELLER** Bjoern Struwer, Roots of Impact

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High-impact enterprises generate social and environmental value that they typically cannot fully capture in their income. This makes it challenging for them to attract investors – in particular in their early growth stages. Furthermore, the enterprises with scalable business models and high potential for impact struggle to keep social and financial bottom lines closely aligned once they raise investment and scale. Social Impact Incentives (SIINC) generate additional revenues and thus enable these companies to attract investment by aligning impact with profitability. Linking financial rewards to the achievement of pre-agreed outcomes creates powerful incentives to push the enterprises towards results that go beyond business as usual. Thus, SIINC can effectively leverage public or philanthropic funds to catalyze private investment in underserved markets with high potential for positive impact.

## A PIECE OF ADVICE

- Selecting the “right” enterprises is key (team, mission, potential, evidence).
- The “ideal” candidates often come up with their own ideas for pushing the frontiers.
- The design of the incentives should motivate the enterprise to deliver additional outcomes above their growth curve, carefully balancing commercial and impact concerns.
- Stay tuned, we will create an Open Platform for Impact-Linked Finance to support practitioners.

# Understanding Different Stakeholder Perspectives

**SESSION TOPIC** Fit-for-purpose: Reasons why we chose an impact bond and did the evidence match up

**STORYTELLER** Dhun Davar, UBS Optimus Foundation

UBS Optimus Foundation has been a pioneer in investing in Development Impact Bonds (DIBs). Following the successful pilot of the Educate Girls DIB in Rajasthan, India, the foundation has invested in three more Impact Bonds of which two are in India and one in South Africa. We have been very pleased with the results so far and continue to learn and develop more experience on how the instrument can provide transparency, increased efficiency and ultimately improved social outcomes.

## A PIECE OF ADVICE

### Investors

- Expect to invest more time than initially foreseen, handholding of various partners might be needed as DIBs are still very new to most.
- Be clear to outcome funders that day-to-day involvement will not be needed or feasible.

### Outcome funders

- Be clear on the reasons for choosing an impact bond.
- Don't try to run your Impact Bond like a grant – step back and enjoy the ride.
- Help your colleagues in more operational roles to understand an Impact Bond will be managed differently to a grant and requires different support from them.

### Intermediaries

- Bring specialist skills to an Impact Bond for added value – otherwise investors can choose to work with generic consultants.
- Think beyond regular fixed-term-staffing modalities – longer term / lighter touch engagement and support is needed.

### Independent verifier

- Limit this role to verification only. Process evaluation should be contracted separately and ideally with a different partner.

### All partners

- Resolve issues quickly! The DIB structure encourages this – so make use of it.

# Scaling Education Outcomes in Africa and the Middle East

**SESSION TOPIC** How we are developing a *great* Outcomes Fund

**STORYTELLER** Dr. Amel Karboul, Education Outcomes Fund for Africa and the Middle East

The Education Outcomes Fund for Africa and the Middle East (EOF) was founded in 2018 as a joint initiative of the Education Commission and the Global Steering Group for Impact Investment. EOF aims to improve the effectiveness of expenditure on Sustainable Development Goal 4 (SDG4 – inclusive and quality education for all) by raising and deploying \$1B in results-based finance. EOF will work in partnership with governments across the Middle East and Africa (MEA) region to strengthen education systems, and ultimately improve learning and employment outcomes for 10 million children and youth. We are preparing to launch our first two programs in 2020, in Sierra Leone and Ghana. These are both in basic education, and together will improve the education of around 500,000 children.

## A PIECE OF ADVICE

- **Repeat, repeat, repeat.** Every time you structure another transaction in the same area, it will be faster, cheaper to set up, and you'll be smarter on the issues each time. So far the sector has been far too fragmented and sub-scale, keeping transaction costs high and observers sceptical.
- **It's a partnership model.** Make sure you involve all the partners early. If you don't involve all the key parties early in the design discussions – i.e. government, donors, investors, providers, evaluators, lawyers, etc. – you may find yourself back near square one when you do eventually bring them in.
- **The fiduciary and governance structure is critical.** Key donors in the market will have a high bar on the fiduciary and institutional capacity of any 'fund' structure, and demonstrating this early is essential.
- **Take a systematic approach to understanding best and worst practices.** There are almost as many ways to design Impact Bonds as there are Impact Bonds and history has a wealth of lessons to offer as to what has worked well and badly. Don't repeat the mistakes someone else has already made for you.
- **Keep the beneficiary front and centre.** It's easy to get very caught up in the financing mechanism – both in your design and your communication. Never lose sight of the beneficiary and how your programs will help serve their needs.

# Developing Sustainable Outcomes Funds by Building Partnerships and Trust with Governments

STORYTELLER

Avnish Gungadurdoss, Instiglio

Instiglio's mission is to transform the results of the public sector through utilizing results-based financing (RBF) mechanisms for our donor, government, and service provider partners. For instance, in 2015, we helped launch the world's first Development Impact Bond (DIB) in education (Educate Girls in India) and, in 2017, helped launch the first Social Impact Bond (SIB) in a developing country (Workforce development in Colombia). In 2017, we also helped launch the first pilot (Village Enterprise DIB) of the Poverty Alleviation Outcomes Fund (PAOF).

Instiglio is currently involved in four Outcomes Funds, including (1) scaling the PAOF in Kenya and Rwanda, (2) technical assistance to design the Colombia Outcomes Fund (workforce development), (3) structuring an outcomes fund in Liberia for education, and (4) preliminary design of a Community Health Outcomes Fund for SubSaharan Africa. These projects have presented challenges as we move from one-off Impact Bond transactions to the pooled Outcomes Fund approach. Challenges include (1) outcome metric selection for a diverse group of participants (e.g., aligning donor and government priorities), (2) performance target setting (e.g., diverse implementers have varied ability to perform), (3) mitigating perverse incentives, such as cream skimming and gaming, and (4) managing proper right risk transfer and/or safeguards for donors.

Especially critical to evolve Outcomes Funds is the importance of sustainability. We aim to achieve this through partnership and trust building with government counterparts to understand and align Outcomes Fund designs with their policies and objectives for the sector at hand. As no two governments are the same, intimate engagement must help both parties understand the barriers faced to best integrate Outcomes Funds and a results-focused mindset into government systems to catalyze long-term change.

## A PIECE OF ADVICE

- **Theory of Change challenges:** Define a clear end game of your Outcomes Fund. For instance, does it aim to be a learning mechanism for the public sector? A mechanism to improve aid effectiveness? A mechanism to crowd impact investors to a social issue? A mechanism to build the capacity of the providers?
- **Prioritization barriers:** Outcomes Funds have the exciting ability to integrate into and directly serve government social service delivery policies, systems, and processes. Accordingly, focus this tweak to align with what the government prioritizes most. If it feels like you are lifting a mountain, something is not right.

## A PIECE OF ADVICE (CONTINUED)

- **Administrative & political barriers:** Outcomes Funds are incredibly powerful discovery and learning platforms. However, some administrative barriers may stand in the way. Consider how to mitigate the following:
  - The mismatch between short administrative cycles of the public sector and longer timelines needed to observe and learn from outcomes.
  - Ministries rarely have adequate resources to commit to learning and innovative adaptation.
  - That governments rarely have a clear and empowered owner of innovation to champion the movement towards adopting outcomes funds.

# Challenge Yourself to Think Beyond the Funding Instrument

**SESSION TOPIC** How we are developing a *great* Outcomes Fund

**STORYTELLER** Rob Mills, Social Finance UK

Social Finance is an international non-profit that partners with governments, the social sector and the financial community to find better ways of tackling social problems around the world. Since 2007, Social Finance has mobilized over \$100 million of investment and helped to pioneer a series of programs, including the Social Impact Bond model, to improve outcomes for disadvantaged & vulnerable people across the world.

## A PIECE OF ADVICE

Challenge yourself to think beyond the funding instrument. An Outcomes Fund should be a means to an end: a systemic change in how outcomes are delivered, all in pursuit of the SDGs.

Ownership by system leaders



Do you have the right partners & ownership in place from the outset – particularly with Government wherever possible?

Align partnerships around socio-economic outcomes



Are all partners truly aligned around a shared set of outcomes?

Define (measurable) success upfront



Do you have the right trade-off between ambition and measurability?

Engage, shape & keep refining the provider market



Do you view service providers as part of a contestable & evolving market? How will you keep improving efficiency & effectiveness of delivery?

Accountability & incentives for delivering outcomes



Do system leaders feel accountable for results? And do service providers have the right incentives to deliver?

Continuously measure, adapt & iterate



A multi-intervention, multi-actor Outcomes Fund will generate complex data. Are you harnessing its value in a dynamic way?

# Failure to Launch: Insights from the Impact Bond for Female Household Needs Project in Mexico

**SESSION TOPIC** How we are adapting to local conditions (including government) and building local ecosystems

**STORYTELLER** Cristina Yoshida Fernandes, Colectivo de Diseño Disruptivo (former Mexican Government)

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Cristina co-led the design of an Impact Bond for Female Household Heads from the Government of the State of Jalisco, in Mexico. Despite the commitment of all organizations involved, several challenges led to the interruption of the project, including political cycles, the legal framework and the complexity of the evaluation. If it's true that we learn more from failures than success, then this is a story full of insights and reflexions.

## A PIECE OF ADVICE

### 1. Actors' openness to change.

- **Insight:** All actors are out of their comfort zones, in an unstable balance between being curious about the new, but also resistant to change.
- **Reflection:** What rituals and tools can help manage different expectations, timelines, bureaucracies, mindsets, and languages?

### 2. Unintended consequences.

- **Insight:** Transforming indicators into targets opens doors to perverse incentives, gaming and data manipulation (the Goodhardt Law).
- **Reflection:** How can you identify unintended consequences beforehand and prevent them? How can you create learning spaces to improve interventions in an agile fashion?

### 3. Outcomes mindset.

- **Insight:** Helping to develop an outcomes mindset is definitely one of the main benefits of an Impact Bond. But changing mindsets take time - they represent in fact the deepest challenge of systemic change.
- **Reflection:** How can you take advantage and partner with other actors and forces that are also heading for the same mindset change?

# Pioneering Employment-Outcomes Models in South Africa

**SESSION TOPIC** How we are adapting to local conditions (including government) and building local ecosystems

**STORYTELLER** Lerato Lehoko, Yellowwoods

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Yellowwoods is a global investment holding company that undertook to make a significant and enduring positive change to the South African labour market as a response to the stubbornly high youth-unemployment rate. The firm founded and incubated the Harambee Youth Employment Accelerator – a social enterprise focused on addressing youth unemployment at scale through partnerships. Very early on in the journey, the government was brought on as a funder and a solution-design partner. Over a period of 8-9 years, Harambee has demonstrated scalable and viable solutions for preparing excluded youth for the world of work. In 2018, Harambee and Yellowwoods launched an Impact Bond for youth employment. The fruitful partnerships with the state have formed the basis of the President’s Youth Employment Intervention, which will begin implementation in April 2020.

## A PIECE OF ADVICE

- Achieving ecosystem impact takes time.
- Map and understand the ecosystem and the role of each stakeholder at the beginning.
- Aim for a healthy blend of theory and learning-by-doing.
- Bring the government on board as soon as possible:
  - o Find the easiest way to start a partnership.
  - o Work with them on solution design and not only funding.

# Cultivating Data-Driven Decision-Making Cultures to Enhance Impact in Delivery

STORYTELLER Dayoung Lee, Dalberg Advisors

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**Context:** Dalberg has been a performance manager (PM) in the ongoing Quality Education India Development Impact Bond. This is a ~\$11M consortium bond that aims to scale four promising educational interventions to advance foundational learning outcomes for 500+ schools/centres across 200K students. Interventions range from principal training to personalized-adaptive learning. We are in our second year in our PM journey, and have also played several other roles including in the feasibility assessment, bond design & due diligence/service-provider selection and process-evaluation phases.

**On data:** From our experience, generating large amounts of data is not essential to cultivating data-driven decision-making cultures. With supportive management and openness to change, delivery organisations can transform over time to data-driven decision-making cultures even in data-scarce environments, such as the education sector in India (especially among public and low-income private schools). In the Quality Education India Development Impact Bond, we first identified and collected high-quality qualitative data, and over time, built up the delivery organization's capacity to collect and monitor quantitative data and develop evaluation and learning (MEL) systems.

On the contrary, even in data-rich environments, we have seen that data does not translate to improvements unless there is a culture of using it properly in decision-making processes. This was evidence in the Educational Initiatives (EI) - Pratham Infotech Foundation (PIF) partnership. EI, who was in charge of the software, was generating lots of data, but it was useless until the PIF team, that was in charge of in-school implementation support, got familiar with it, packaged it in a way that worked for them, and started using data to track progress, and diagnose and solve issues.

**On DIB-readiness of service providers and what enables them to take advantage of performance management:** Through our performance management experience, we identified four factors that drive success, which can also serve as a check-list for assessing service provider readiness for participating in Impact Bonds:

- 1. Data driven decision-making culture & MEL systems (reiterating the above point):** Is there a data-driven decision-making culture and basic Monitoring, Evaluation & Learning systems & focus within the organization? Can you effectively collect and analyze data to improve intervention delivery constantly?
- 2. Management/leadership engagement:** Is there time and buy-in from senior/mid management to guide and support the field teams and help instil excitement & mission-mode to all staff involved?
- 3. Performance focus, incentives and buffers:** Is the organization able to maintain a razor-sharp focus on delivery and learning to prioritize efficiency and ensure timely, flexible, and continued course correction? Is there dedicated on-the-ground field staff and are there adequate resources for timely and high-quality delivery? Is there adequate buffer for attrition and planning for knowledge transfers in that case?

We have learned that not all organizations with a strong track record of success can be ‘performance managed’ if the incentives are not there. As service providers are not at risk of financial losses if outcomes are not achieved financially (unless sharing outcomes risk with investors), they need additional incentives (e.g., reputational risk, financing contingent on success, etc.) to make Impact Bond contracts work. For example, in designing another Impact Bond in the healthcare space, we considered working with public hospitals in India as service providers. However, these hospitals did not have the right incentives to perform better under the Impact Bond structure than without one, which undermined the likelihood of enhanced results. Service providers must be incentivised to pivot and innovate further based on lessons learned during implementation.

4. **Ability to manage external risks:** Is there capacity to mitigate some of the external risks (e.g., political changes) and maintain good relationships across all levels of stakeholders (e.g., teacher unions)?

## A PIECE OF ADVICE

- **The PM-implementor relationship:**
  - Build a relationship of trust vs. that of a monitoring agency.
  - Generate more receptivity towards PM recommendations. Best practices include getting service provider buy-in on the severity of the challenge before focusing on the solutions and bottom-up (service-provider led) vs. top-down developing of solutions (PM led).
- **Categories/nature of PM support:**
  - Push service providers towards long term strategic planning vs. making short-term fixes.
  - Customize your PM approach or make room for iterations over time. Best practices include catering solutions based on the point in the ‘intervention journey’ that a service provider is in, or different strengths/capabilities they can leverage over others.
- **Enabling service provider capacity:**
  - Help to share learnings amongst service providers.
  - Keep the balance between delegation vs. control. The PM needs to ensure that the service provider’s capacity is built in the long run so that they are better geared towards implementation vs. doing the actual implementation work for them.

