Outcomes-Based Financing: Impact Bonds and Outcomes Funds

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Impact Bonds Primer
# A Typology of Results-Based Financing (RBF)

<table>
<thead>
<tr>
<th>Who holds the financial risk/contingency for payment?</th>
<th>RBF Instrument Category</th>
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<tr>
<td>National Government</td>
<td>Performance-based Aid</td>
<td>Cash on Delivery</td>
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<td>Performance-based Loan</td>
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<td>Performance Debt-Buy Down</td>
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<td>Local Government</td>
<td>Performance-based Transfer</td>
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<td>Output-based Disbursement</td>
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<td>Service Providers</td>
<td>Performance-based Contract</td>
<td>Performance-based Contract</td>
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<td>Prize-based Challenge or Award</td>
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<td>Development Impact Bond</td>
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<td>Environmental Impact Bond</td>
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<td>Outcomes Fund</td>
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<td>Beneficiaries</td>
<td>Conditional Cash Transfer</td>
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Impact Bond:
a form of results-based financing in which risk investors provide service provider(s) capital for social or environmental services and are repaid by outcomes funder(s) contingent on the achievement of agreed-upon results
What is an Impact Bond? A Confluence of 3 Things

- Impact Investing
- Public Private Partnership
- Results-Based Financing
1. The investor provides upfront capital to the service provider to deliver services to a population in need.

2. An independent evaluator verifies whether the service provider has achieved pre-agreed impact metrics.

3. The outcome funder (govt if SIB and 3rd party if DIB) repays the investor if the metrics are achieved.
Theory of Change

Outcomes Focus
- Time investment of all stakeholders to determine the metrics in the design of the impact bond
- Flexibility for service providers to innovate and ability to tailor to beneficiary needs

Upfront Capital
- Liquidity to deliver services
- Flexibility to innovate

Investor Engagement
- Greater attention placed on service delivery during implementation
- Improve capacity of service providers
- Adaptive management

Scrutiny on the Project
- Stakeholders closely engaged and invested

Outcome Achievement
Impact Bonds Market: Global Landscape
Size

245 impact bonds across 40 countries

227 Social Impact Bonds (SIBs)

18 Development Impact Bonds (DIBs)

Impact Bonds Over Time Globally

Source: Brookings Global Impact Bond Database, May 2023
Scope

Largest number of impact bonds in UK and US
Scope in LMICs

32 Impact Bonds in Developing Countries

Notes: 1 additional DIB in Chile, a high-income country. Argentina was reclassified as a middle-income country in 2019.
Measuring the Success of Impact Bonds
5 Dimensions of Success

1. Market Size
2. Beneficiary Reach
3. Outcome Achievement
4. Ecosystem Effects
5. Costs vs. Benefits
1,221 babies received quality KMC - 28% above target goal
80% of babies were exclusively breastfed at discharge
80% of babies that returned for 40-week gestational checkup had appropriate weight gain
Grand Challenges Canada (investor) received its principal plus interest

- Recruitment and retention targets (1,000 children retained per year) were exceeded in all three performance years
- Attendance targets (1,000 children achieve >50% each year) were met all three years, on average
- Development Assessment (measured by ELOM) target not achieved but showed improvement.
A Sample of Completed Impact Bonds

**Impact Bond Innovation Fund**

- **Recruitment and retention** targets (1,000 children retained per year) were **exceeded** in all three performance years.
- **Attendance targets** (1000 children achieve >50% each year) were met all three years, on average.
- **Development Assessment** (measured by ELOM) target not achieved but showed improvement.

**The Utkrisht Impact Bond**

- Improved the quality of postnatal care in **405** small, private facilities
- Was able to quickly adapt to keep program going through COVID-19
- USB-OF (investor) was repaid its initial investment, plus an 8% internal rate of return.
Ecosystem Effects of Impact Bonds

- M&E / Performance Management Systems
- Innovation in Delivery
- Crowd in Private Funding
- Reduce Government Risk
- Incentivize Collaboration
- Sustained Impact
Learn More
Impact Bonds Research at Brookings
Thank you!

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