By: Borja Santos Porras & Ricardo Maia

Results Based Financing (RBF)

Impact Bonds

WHAT IS IT?

A type of **financial security** that provides capital for projects that will create better social outcomes and lead to savings.

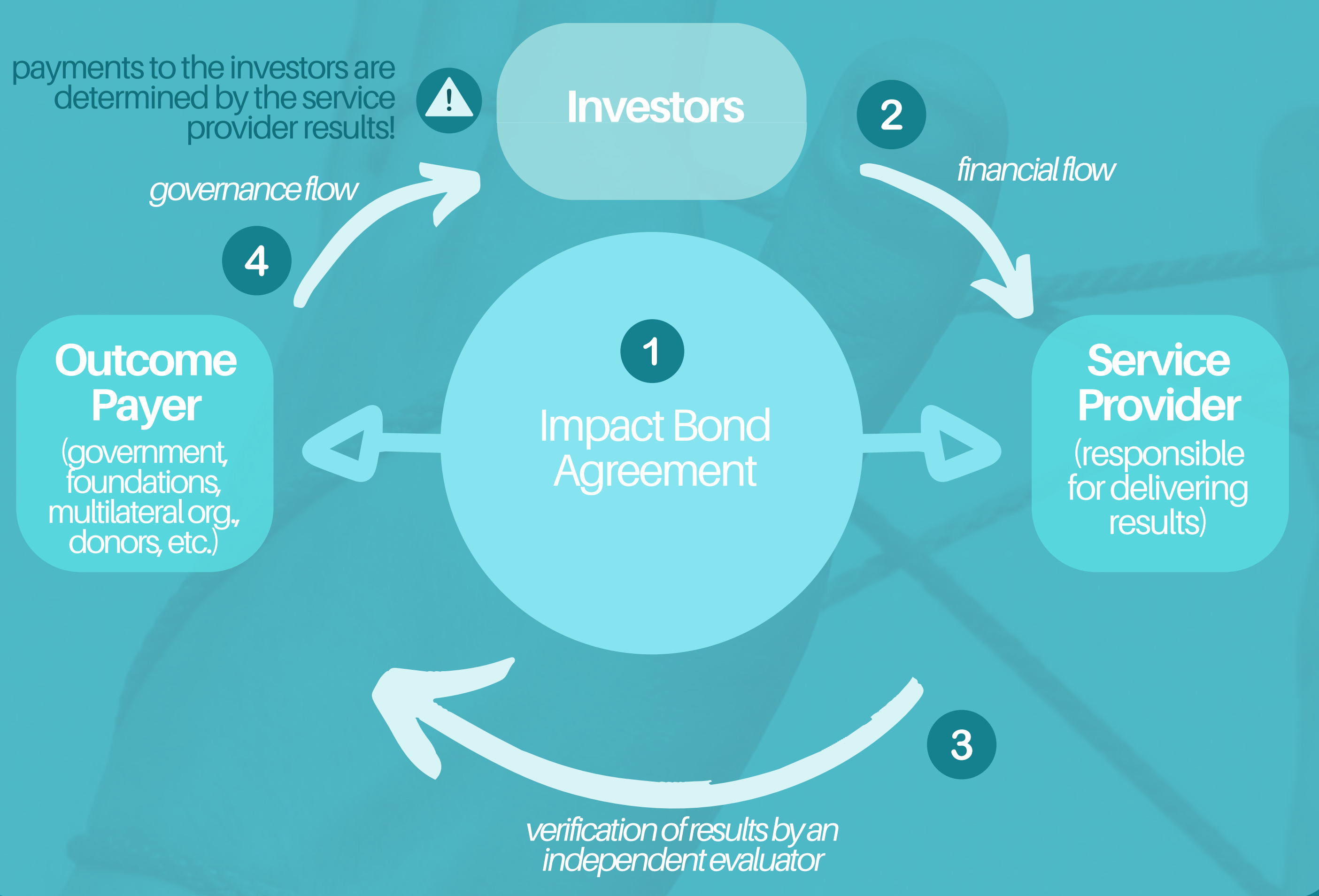
A **tool of RBF** which focus the allocation of money to social programmes that yield effective results.

A **new development** and experiment in finance in the early stages of design and testing.

An instrument where the investor is the **incentivized agent** (and the one that bears the financial risk).

MODEL

An **investor** provides up-front financing for the operations of a **service provider**, receiving a return from the **outcome payer** once the results have been achieved.



2 types of Impact Bonds with the same concept, but applied in different contexts:

Social Impact Bonds

SIBs

Investors provide upfront funding and service providers deliver the outcomes. If successful, the investors get remunerated by **the government** based on the project results.

Outcome Payer: **Government**

Development Impact Bonds

DIBs

Investors pay for development programmes at the start and service providers deliver the results. If successful, the investors get remunerated by **donors** based on the project results.

Outcome Payer: **Donors**

EXAMPLES OF IMPACT BONDS

Peterborough Prison SIB, United Kingdom, 2010

The re-offending rates among short-sentenced prisoners were exceedingly high in the UK. Most of the prisoners in this group had acute needs (psychologically, financially, housing, etc.) and a high proportion left prison only to return a few months later.

To address this, in 2010, the first SIB ever was created.

As part of it, trusts, foundations and private investors were incentivized to invest so as to help the One Service (an umbrella organization) to perform its programme to reduce the re-offending among short-sentenced offenders leaving the Peterborough Prison in the UK, while the British Ministry of Justice (government) acted as the results funder.

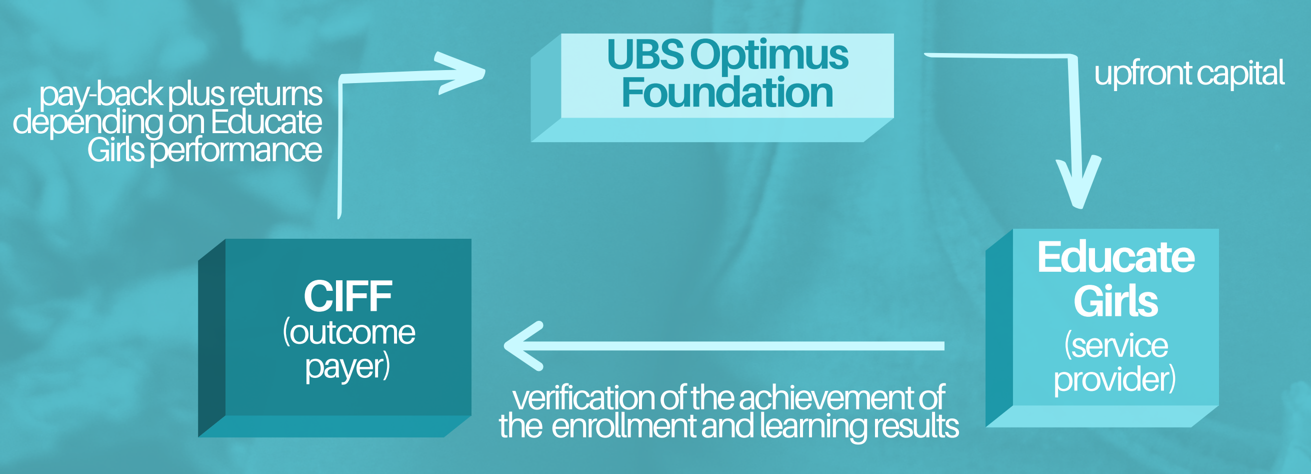
In 2017, it was announced that the Peterborough Prison SIB results had reduced re-offending by 9%, exceeding the predefined target of 7.5%. All the 17 investors were repaid their initial investment plus a return of 3% interest per annum.

Educate Girls DIB, India, 2015

In India, around 3.7 million girls are out of school. Uneducated girls are three times more likely to contract HIV, earn 10% less income and marry 3 years earlier than educated ones.

To address this, in 2015, the Educate Girls DIB was created.

As part of it, the UBS Optimus Foundation was incentivized to invest so as to help the Educate Girls (a local implementer) to perform its programme to improve the enrollment retention and learning of marginalized girls in India, while the Children's Investment Fund Foundation (CIFF) acted as the results funder.



In 2017, the results were highly positive: the enrollment targets had been exceeded and learning gains continued. The flexibility originated by this Impact Bond was able to improve results for a group of girls who were, otherwise, the hardest to reach.

WHY IS IT IMPORTANT?

Makes money and investment **more effective.**

Linking funding to the achievement of results, Impact Bonds decreases the risk of funding programs that do not work or are inefficient.

Allows service providers to **adapt to change.**

With the shift the focus from the activities to their real impact, Impact Bonds offer service providers more flexibility (and innovation) to do what they need to do in order to achieve results.

Creates incentives for **better programmes.**

Associating the funding to real results, Impact Bonds make it attractive and profitable for service providers to improve their own programmes.

Engages the private sector with **social issues.**

Since it consists on an investment opportunity a financial return, Impact Bonds incentivizes the private sector to participate in enhance social programmes.

Can achieve **greater impact.**

Evidence shows that Impact Bonds improve the effectiveness of social programs, also helping to identify replicable and cost-effective intervention models. At the same time, Impact Bonds allow to finance programmes that otherwise would not have been financed.

Sources:

- *A Guide for Effective Results-Based Financing Strategies.* (2018) The Global Partnership on Output-Based Aid (GPOBA). The World Bank Group. https://www.gprba.org/sites/gpoba/files/publication/downloads/2019-0/Guide_for_Effective_RBF_Strategies1.pdf
- *Evaluating the World's First Social Impact Bond*. (2016). Rand Corporation. https://www.rand.org/randeurope/research/projects/social-impact-bonds.html
- *Impact Bonds*. (n.d.). Instiglio. https://www.instiglio.org/en/impact-bonds/
- *Peterborough*. (n.d.). Social Finance UK. https://www.socialfinance.org.uk/peterborough-social-impact-bond
- *Results Based Financing Approaches (RBFA) – what are they?* (2015). Sida. https://www.sida.se/contentassets/1b13c3b7a75947a2a4487e2b0f61267c/18235.pdf
- *Social Impact Bond—Definition, Purpose, amd How It Works*. (n.d.). Corporate Finance Institute. https://corporatefinanceinstitute.com/resources/knowledge/trading-investing/social-impact-bond/
- *The Educate Girls Development Impact Bond: A new finance model for international development*. (2015). Instiglio. http://instiglio.org/educategirlsdib/wp-content/uploads/2015/09/Educate-Girls-DIB-Sept-2015.pdf

ie SCHOOL OF GLOBAL & PUBLIC AFFAIRS